DECEMBER 23, 1955 20 CENTS

U.S. News & World Report

WHAT'S HAPPENING TO AUTO BOOM

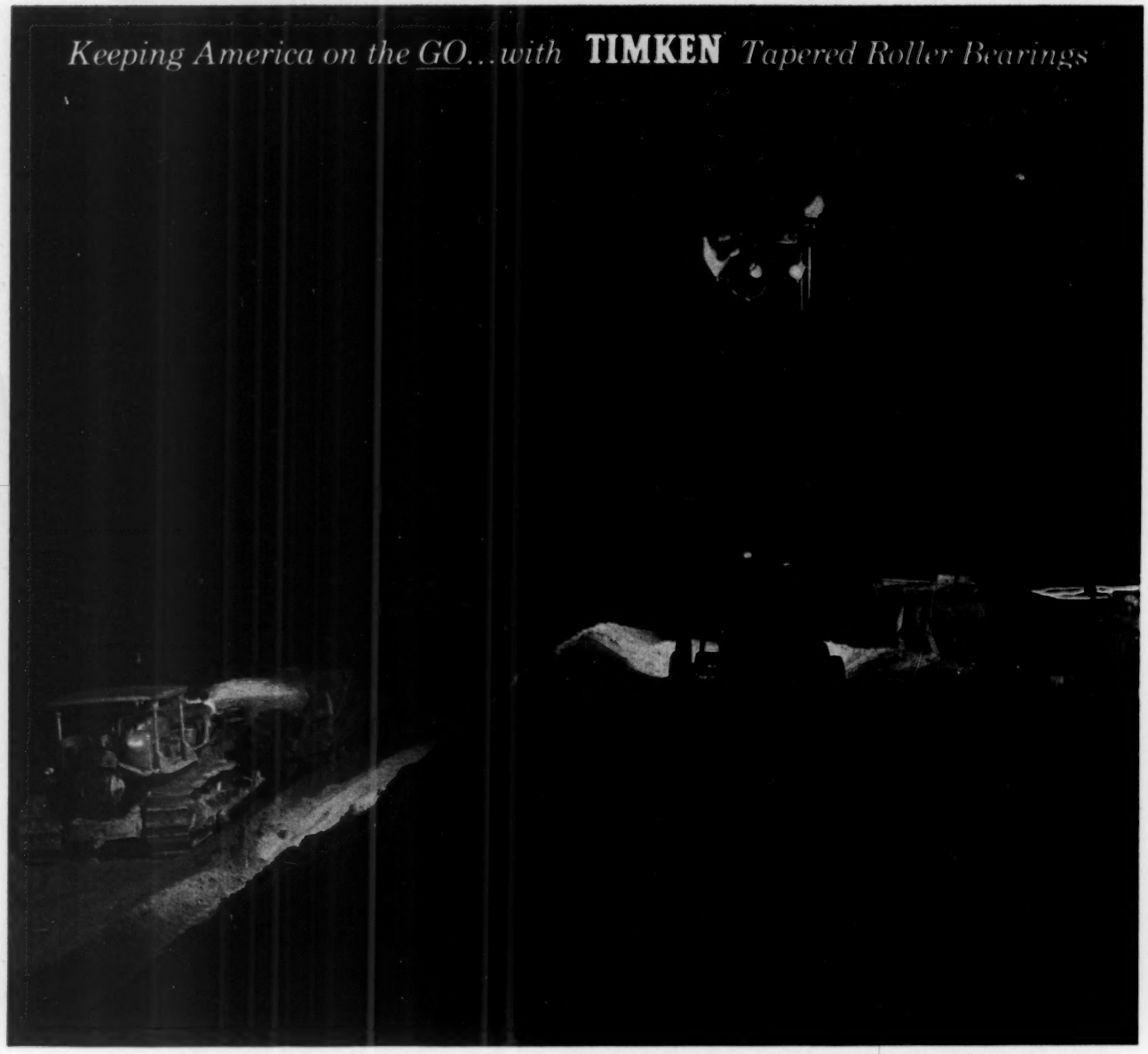
NO MORE DEPRESSIONS?

Exclusive Interview with

MURRAY SHIELDS,

Noted Economist

Keeping America on the GO...with **TIMKEN** *Tapered Roller Bearings*



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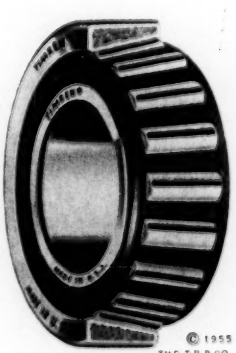

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POLITICAL POT BOILS

THERE WAS PLENTY of activity on the political front last week, both officially and in the realm of rumor.

Democratic Senator Estes Kefauver, of Tennessee, threw his hat into the 1956 presidential ring at a Washington press conference. Rival candidate Adlai Stevenson announced his name would be entered in the presidential primaries of California, Florida, Pennsylvania and Illinois—as well as in Minnesota, which he had designated in November.

The 1952 Democratic nominee explained that those particular primaries "were selected to provide for expressions of preference on a regional basis." And Ohio's Democratic Governor, Frank J. Lausche, announced he would seek a favorite-son nomination from his State.

Unofficially, there was this report: An Eisenhower aide was said to have assured New Hampshire Republicans that the President would not bow out as a possible 1956 candidate before that State's primary on March 13. While the White House refused to confirm this rumor, at least three prominent New Hampshire Republicans announced they would be pro-Eisenhower candidates for posts as delegates to the Republican Convention.

SURPLUSES TO SHARE

A PLAN TO SHARE U. S. surpluses of wheat and corn with needy persons abroad was made public by Secretary of Agriculture Ezra T. Benson last week. Up to now, the Government has confined its relief program largely to those farm products which were in danger of spoiling in storage. Under the new program, wheat and corn would be turned into flour and corn meal for distribution abroad. Eighteen relief agencies would get all the surplus foods they could handle.

Church and welfare officials hailed the move, which they estimated would benefit 10 million families in 67 countries next year. Big as that program was, it would hardly make a dent in Government storage bins. The wheat involved, for instance, would amount to about 8 million bushels next year. The surplus of wheat now is 920 million bushels.

TURNCOAT RETURNS

ONE MORE of the 21 "turncoat" GI's who preferred life with their Communist Chinese captors to life in the U. S. has changed his mind.

Richard R. Tenneson, of Alden, Minn., was only 17 when he was captured in Korea early in 1951. He was 22 when he stepped over the line into Hong Kong, en route home, last week. Meeting Western reporters, Tenneson commented: "Communism is all right for people who want it. I don't . . . I have betrayed no one . . . I stayed behind only because I opposed American policy in Korea."

Still in Red China are 16 American defectors. One of the original group died there in 1954. Three others came home last summer. Tenneson told newsmen he had seen all the remaining turncoats within the last month and thought all of them would come back "sometime."

CONTROL OF THE SEAS

THE SECOND-RANKING sea power in the world—the U.S.S.R.—is "still growing—and growing fast," the nation was warned last week. Adm. Arleigh A. Burke, Chief of Naval Operations, told a Washington audience that Russia's Navy, with its emphasis on cruisers, submarines and destroyers, is designed to prevent the U. S. and its allies from using the seas near Europe and Asia.

If the U. S. ever loses control of the seas, the Navy Chief warned, "Our entire overseas investment will go down the drain to be utilized by the enemy as he sees fit."

WORLD TROUBLE SPOTS

MIDDLE EASTERN tensions looked more dangerous than ever after Israeli Army units fired on Syrian gun positions along the Sea of Galilee, killing 50 Syrians last week. Egypt's Prime Minister, Gamal Abdel Nasser, warned that another such move would bring a joint attack on Israel by Egypt and Syria.

In Algeria, thousands of French troops pushed through the countryside hunting for rebel terrorists in retaliation for the massacre of members of a French military convoy. . . . A British announcement outlawing the Communist Party in Cyprus brought forth a new wave of violence on that island. A British soldier was killed, five others were wounded.

A Communist riot in West Berlin fizzled when 250 policemen descended upon 500 demonstrators who had massed to break up a meeting of West German veterans. . . . In Paris, Communists and right-wing hecklers tried unsuccessfully to break up campaign meetings of the supporters of Pierre Mendès-France, former Premier, as France's hottest postwar election campaign got under way.

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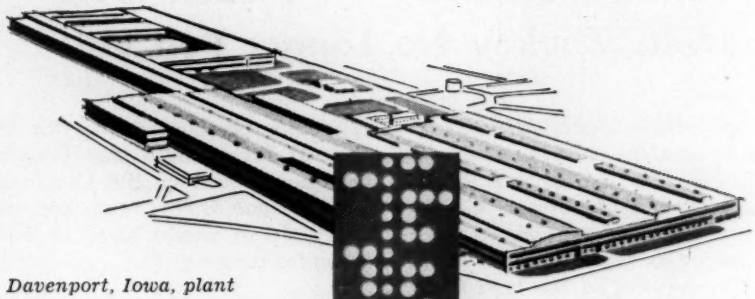

Davenport, Iowa, plant

An expanded Bell System teletypewriter network, which speeds orders from sales office to relay center and then to plant assignment—on the same day—is cutting the time and work of order processing by 40% for Aluminum Company of America.

Linking 62 sales offices and 24 plants, the network's nerve center is the Alcoa Relay Center, Pittsburgh. In the Production and Planning Office, each day, up to 1000 orders are processed with money-saving speed.

Teletypewriter Relay Center, Pittsburgh

Formerly, original orders were typed and duplicates distributed by mail. At the various plants, additional retyping and rechecking were required for shipping and invoicing purposes. Now, with the new system, the need for retyping and rechecking has practically been eliminated.

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[Items appearing on this page are reported in Washington and other news centers]

Knowland to Ike: I'll Run If You Don't . . . Eden Gets A Stand-In . . . Eisenhower, Zhukov No Longer Pen Pals

William Knowland, Senator from California and Republican Leader in the Senate, is reported to have told President Eisenhower directly that he will be a candidate for the Republican presidential nomination if Ike does not choose to run again. April 6 is the last day a candidate has for accepting a bid to run in California's presidential-preference primary.

★ ★ ★

If Ike puts off announcement of his decision concerning a second nomination until mid-February, he will discourage other candidates from entering primaries in five States—Minnesota, New Hampshire, Ohio, Illinois and West Virginia—plus Alaska. Doctors advise that the President cannot be sure of his real condition until the middle of February, or later.

★ ★ ★

Richard Nixon, Vice President, will escape the necessity of entering the California primary in a contest with Senator Knowland or another Republican if President Eisenhower does delay his decision beyond April 6 of next year. A Nixon-Knowland contest might otherwise develop.

★ ★ ★

Henry Cabot Lodge, Jr., U. S. delegate to the United Nations, not John Foster Dulles, Secretary of State, shaped the strategy that wound up with the "package deal" for admittance of a big group of nations to the United Nations—but excluding Japan and Outer Mongolia. The Soviet Union maneuvered the final deal.

★ ★ ★

Tension between Greece and Turkey has reached the point where envoys of the two countries avoid each other at Washington diplomatic parties. The dispute grows out of anti-Greek riots in Turkey.

Sir Anthony Eden, Prime Minister of Great Britain, does not have the best of health and is finding his job a growing strain. R. A. Butler, Chancellor of the Exchequer, who is moving up to act as deputy Prime Minister, will take part of the load from Sir Anthony and will be in a position to move into leadership of the Conservative Party in event the Prime Minister is overtaken by illness.

★ ★ ★

Nikita Khrushchev, No. 1 man in the Soviet Union, is enjoying the best of health at a time when leaders of several non-Communist countries are incapacitated by illness, beset by health problems or are aged and infirm.

★ ★ ★

Lyndon Johnson, Texas Senator and Majority Leader of the Senate, will not give up his title during the session of Congress ahead, even if forced by reasons of health not to perform all of the active floor duties that impose a great strain. Floor duties probably will be taken on by another Senator when the going gets rough.

★ ★ ★

President Eisenhower has remarked to visitors lately that he feels a lot better than the doctors and his family think he does. Ike is quoted as remarking that, if he weren't surrounded by so many health gadgets and forced to submit to so many examinations, he would feel still better.

★ ★ ★

Thomas Dewey's name, to date, has not been mentioned by President Eisenhower as one of those young Republicans he feels could take on the job he holds.

★ ★ ★

Averell Harriman, Governor of New York, and President Eisenhower are pictured by friends of both as having an intense personal dislike for each other. If Ike thought that Governor Harriman would be the Democratic nominee, one friend remarked, then the President would have an added reason for running.

★ ★ ★

High officials in the State Department are not pleased that the Civil Service Commission has held that they had no grounds for firing a Republican on the State Department staff who pressed for publication of secret wartime papers. Top officials prefer not to publish these papers for fear that publication might disturb the Democrats and affect bipartisan foreign policy.

★ ★ ★

Leonard Hall, Chairman of the Republican National Committee, is getting political reports from the Midwest farm belt that are not considered good. There are said to be signs that a number of Republican members of Congress are in trouble with farm voters and are asking that something be done to win back farm support.

★ ★ ★

Ezra Benson, Secretary of Agriculture, is finding that his frequent predictions of improvement to come for farmers have tended to boomerang. The Democrats are assembling these predictions for use in the 1956 political campaign.

★ ★ ★

President Eisenhower and Marshal Georgi Zhukov, who started out to revive wartime friendships when Soviet leaders were selling the West the idea of coexistence, no longer are carrying on their letter writing. Zhukov still is around when the big parties are given by top Russians, but he isn't cutting the figure that he once did.

They wanted to add another machine on the line

Fairbanks-Morse Design Engineers wanted to see how *you* could get more production out of every square foot of premium production line space.

They designed the now-famous Fairbanks-Morse Axial Air Gap Motor that is much shorter than conventional type motors. That saved "motor space" can become "production space" by the addition of one or more machines to every production line.

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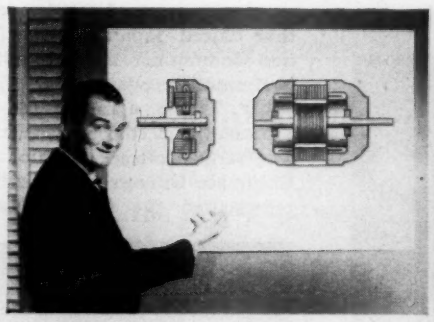

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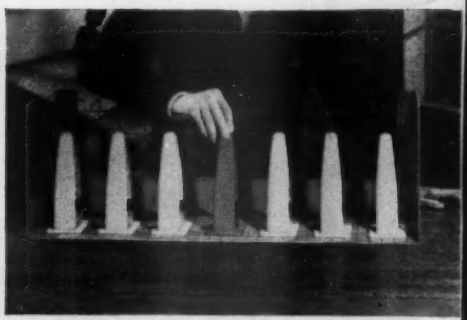

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PEOPLE ★ ★ ★

OF THE WEEK

› FRANK J. LAUSCHE is one of the Democratic Party's biggest vote getters. His decision to run as a "favorite son" candidate for the presidential nomination at Chicago next year could strike a jarring blow to the aspirations of other contenders.

The Ohio Governor insists that he is bidding only for the 58 Convention votes in his own State; that he will not seek delegate support from other States. He is refusing to make speeches outside of Ohio. "I will do nothing to reach the goal you have set for me," he has told those who sought his comment on his chances for winning nomination.

Behind Governor Lausche's early move is an Ohio law that requires delegates to national political conventions to designate first and second choices, have the written consent of those choices to use their names. Mr. Lausche explains that he is letting his name be used in order to expedite the selection of Ohio's Democratic delegates.

Support for Governor Lausche as a "dark horse" candidate has been voiced by some Southern Democrats who feel he fits their "conservative" tastes. The Governor is serving his fifth term as Ohio's chief executive. In 1952, he won by 425,000 votes. President Eisenhower's margin in Ohio that year was 500,000.

Mr. Lausche is 60, a Roman Catholic. If elected, he would be the first U. S. President of that faith.

› HUGH GAITSKELL takes over as leader of the British Labor Party with two tremendous undertakings ahead of him. If Socialism is to survive as a major force in British politics, he must patch up the differences that have split the party into two camps; must come up with a policy that will appeal to the average British voter.

Mr. Gaitskell, at 49 a potential Prime Minister if the Labor Party returns to power, is convinced that the Russian spirit of good will shown at Geneva last summer has "evaporated." He believes that the West should stand up to the Communists more vigorously—"blow our own trumpets a bit." Also, he is anxious that British relations with the U. S. be kept "close and cordial."

The new leader is not a hardfisted trade-unionist of the type that once dominated the party's councils. He comes from a family that has long provided Britain with civil servants, administrators, military officers.

At Oxford, Mr. Gaitskell won high marks in economics, politics, philosophy. He became a teacher, twice ran for Parliament on the Socialist ticket in the '30s, lost both times. World War II brought him into the Government as an economist. He finally won a Parliament seat in the Socialist landslide of 1945, rose rapidly to the top in 10 years. Now he has the job of leading the fight to unseat the Conservatives in the next election—not expected before 1960.

› SENATOR WALTER F. GEORGE senses a strong sentiment in favor of tax cuts among lawmakers getting ready to return to Congress next month. The Senator hopes—though he feels none too sure—that the pressure will lean toward increasing the individual income-tax exemption from $600 to "at least $700." He is hopeful also about chances for lower rates on middle-sized incomes.

"Middle" incomes generally are de-

(Continued on page 10)

A NEW MANEUVER BY RUSSIA—AND THE U. N. GROWS BIGGER

› TWO AMBASSADORS were the central figures in a diplomatic drama in the United Nations last week. **Tingfu F. Tsiang** directed a firm stand by Nationalist China against a Russian power play, managed by **Arkady A. Sobolev.** Each used the veto.

TSIANG'S VETO

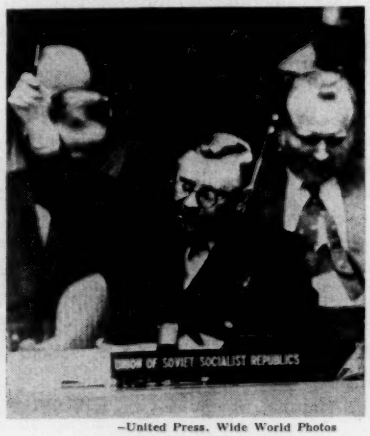
At issue were the applications for admission of 18 nations—five of them Red satellites. Russia insisted it must be all—or none.

Ambassador Tsiang used his veto to block out Soviet-sponsored Outer Mongolia. Russia's Sobolev countered with a complicated maneuver that barred Japan's entry. Twelve non-Communist nations and four Red satellites won seats.

Mr. Tsiang, a former university professor and editor, was educated at Oberlin College, in Ohio, and at Columbia University. He is 60, has represented the Chiang Kai-shek Government in U. N. groups since the world body was founded.

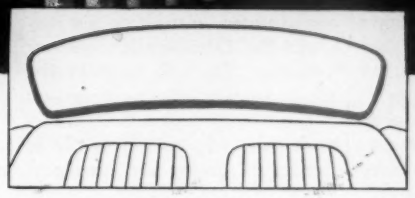
SECURITY COUNCIL

Mr. Sobolev, 52, is a former administrative official of the U. N., was named Russia's chief delegate after death of Andrei Y. Vishinsky in November, 1954. He was trained as an engineer in Leningrad.



—United Press, Wide World Photos

SOBOLEV'S VETO



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The many advantages of Enjay Butyl make it the almost perfect rubber for the automotive industry. Its price and ready availability are advantages, too. And it is now available in non-staining grades for *white* and *light-colored* parts. For full information and for skilled technical assistance in the uses of Enjay Butyl, contact the Enjay Company at either of the addresses below.

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fined as those ranging from $6,000 to $50,000 per year. It is Senator George's contention that many small businessmen in those income brackets need tax relief. However, he opposes any over-all reduction in corporation taxes, now at a top rate of 52 per cent.

Not all Democratic leaders in the Senate and House share the tax opinions of the veteran Georgia legislator. Several of his most influential colleagues—plus some Republicans high in Congress and the Administration—have expressed doubts that any tax reduction is near. A more important goal, in their eyes, is a balanced budget.

Senator George, who will be 78 next month, exuded good health and glowing spirit during a brief visit to Washington last week. He has been patching his political fences in Georgia with a series of more than 40 speeches, is expected to announce soon that he will be a candidate for another term in 1956.

One obstacle to the Georgian's drive for tax cuts is the strong probability that the Administration will increase military spending.

› **SENATOR ESTES KEFAUVER,** a handshaking campaigner with a demonstrated ability to corral votes, is making his second bid to win the Democratic nomination for President. The tall man in the coonskin cap is pinning his campaign on his personal popularity and a determined drive to enter and win as many State primary contests as money and time permit.

In some of the primaries, Mr. Kefauver will clash head-on with the man who beat him out for the 1952 nomination—Adlai E. Stevenson. An early starter in the presidential race, Mr. Stevenson will enter at least five State contests.

The Tennessee Senator obviously believes that President Eisenhower will not run for re-election, because of his heart condition. Mr. Kefauver declared that the Republican Party "suffers from lack of alternative candidates broadly representative of their party."

One thing hurting the Tennessean's chances is limited support from party leaders—the professionals of politics. He is well known through his televised crime investigation of several years ago. But the hearings hurt him by linking racketeering to Democratic political machines in some big cities.

› **NEW ADMINISTRATOR** of Civil Aeronautics is finding his early days on the job marred by political controversy. **Charles J. Lowen,** of Colorado, was appointed to the post by President Eisenhower to succeed Frederick B. Lee, of Vermont, who resigned under protest. Both are Republicans.

Some Democrats claim to see a "plot" by high officials in the Commerce Department against Mr. Lee, who favors federal aid to prepare U. S. airports to handle anticipated jet-airliner traffic. Not so, replies Under Secretary of Commerce Louis S. Rothschild, who says Mr. Lee quit under "an accumulation of stresses." A congressional investigation seemed likely.

Mr. Lowen, 40, has a background of 17 years in the aviation industry. His pilot-training school in Denver prepared many young men for military flying in World War II. Mr. Lowen followed his students into uniform, served three years in the Air Transport Command. He has been with the Civil Aeronautics Administration as consultant and Deputy Administrator since last May.

The CAA is charged with fostering development of civil aviation, is responsible to the Commerce Department.

LOOKING BETTER

—Harris & Ewing

› **LYNDON B. JOHNSON,** health restored six months after suffering a serious heart attack, heard this counsel from another heart victim: Take it easy!

It was President Eisenhower, offering advice at a White House conference of congressional leaders. The Senate Majority Leader returned the admonition.

Senator Johnson has spent most of the time since last July at his ranch in Texas, resting. He looks tanned, relaxed. A medical examination after Christmas will determine whether he will resume all of his Senate duties when Congress returns next month.

The Texan disclaims any presidential ambitions, says he has no favorites among the possible Democratic candidates in 1956.

› **FRESHMAN LEGISLATOR** with a familiar name will be ready to answer the roll call when the U. S. House of Representatives reconvenes next month. **John Dingell, Jr.,** a Democrat, won a special election held in Michigan last week to fill the vacancy left by the death of his father in September. He will represent the 15th congressional district, a normally Democratic area entirely within the city of Detroit.

The election—during the height of the Christmas shopping season and with all of Detroit's major newspapers shut down by a strike—was marked by voter apathy. Unofficial returns indicated that Mr. Dingell, 29, rolled up better than a 3-to-1 victory over Thomas E. Brennan, his 26-year-old Republican opponent. Of the 161,000 eligible voters in the district, fewer than 26,000 bothered to vote.

Representative Dingell once was a House page, got his law degree from Georgetown University, in Washington, D. C. He served as assistant prosecutor of Wayne County—Detroit and environs—before running for Congress. He had the support of the AFL-CIO.

› **A CALIFORNIA LAWYER** has been chosen to head the bipartisan Commission that will spend most of a year studying the Government's loyalty-security programs, report on them to Congress. **Loyd Wright,** a former president of the American Bar Association, was elected unanimously by the 12 members of the Commission to be their chairman.

Mr. Wright, 63 this week, practices in Los Angeles, has widespread interests that include aviation and horse racing. He describes himself as a "Jeffersonian Republican . . . one who thinks we ought to go back to the old Democrats' philosophy of State rights."

The political makeup of the Commission is six Republicans and six Democrats. The group was created by resolution of Congress last summer, is charged with finding a "delicate balance" between the protection of the country's security and preservation of the constitutional rights of individuals.

Chairman Wright believes that "the Constitution does not compel us to sacrifice the freedom of the nation for the sanctity of an individual's thoughts." However, he says that he and the other Commission members are taking up their duties with no preconceived views.

FROM THE NATION'S CAPITAL

Tomorrow®

A LOOK AHEAD

Newsgram®

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If you get a tax cut on 1956 income, it probably will be this:

An increase in personal exemption from the present $600 to $700.

A cut of 5 per cent in the tax itself, affecting all taxpayers.

Effective date of the reduced tax to be July 1, 1956.

Even tax reduction as moderate as that is far from certain. Reason: Loss of revenue would approach 4 billion dollars for a full year. Need for revenue to assure a balanced budget is tending to rise, not to decline.

Cost of armed forces is to go up 1 billion. Spending for highways is to be increased sharply. Farmers will get a new program of some kind, and its cost will be substantial. Federal aid for schools is a growing prospect.

Altogether, the cost of Government may reach its low in the accounting year that ends next June 30. Trends after that will be upward again.

Outlook for income and spending in the bookkeeping budget is this:

For year to end June 30: outgo--63.8 billions; income--65.1 billions, assuming no tax cut; budget surplus--1.3 billion as a prospect.

For year to start July 1: outgo--64.3 billions, with no new farm, school or highway program; income--63.8 billions, assuming Government succeeds in a moderate check to the boom; deficit--500 millions as a minimum.

Any cut in taxes or increase in spending would add to the deficit.

On the basis of cash taken in and cash paid out, outlook is this:

For year to end June 30: cash outgo--70.8 billions; cash income--74.4 billions; cash surplus--3.6 billions. The cash budget includes income and outgo from the Social Security program and some other programs.

For year to start July 1: cash outgo--71.7 billions; cash income--73.1 billions; cash surplus--1.4 billion, if new programs are counted out.

Tax cuts, if made, will be related to political and business prospects. Business boom, almost surely, will slow moderately as 1956 wears on.

Any dip in business will produce strong demands for tax cuts.

Residential building, definitely, is starting to drop. Housing starts in 1956 are unlikely to exceed 1.1 million against 1.3 million this year.

New-car output of at least 6.5 million seems reasonable for 1956. Output this year will approach 8 million. Sales this year will be about 7.3 million. Sales next year are likely to be around 6.5 million.

Objective of official policy is to slow the booms in those two fields.

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Prospect is strong that it will succeed. Boom slowdown in housing and autos, however, will tend to take some steam from activities in other fields.

Business activity, even slowed a little, still will be excellent.

Big investors are becoming more conscious of this fact: Tax-free bonds, often, can be bought at prices to yield in excess of 3 per cent. Stocks, on an average at recent prices, yield a trifle less than 4 per cent. Dividend income, except for small relief voted in 1954, is taxable. Bond income, where tax-free, can have strong attraction for an investor whose tax bracket is above the minimum. A 3 per cent bond, for a man whose top dollar of income hits the 50 per cent tax bracket, is equivalent to about a 56.6 per cent return from stocks. That fact is affecting stock investment to some degree now.

Higher bond yields reflect Government efforts to check private borrowing. Tighter-money policy, in effect now, is likely to reverse before mid-1956.

Farm programs will be strengthened next year. A "soil bank" plan will very probably be added to the soil-conservation program. Price supports will be raised somewhat. Food giveaway programs will be increased.

Even so, barring drought, the farm problem will be as acute as ever.

Basic problem is like that following 1929, only on a bigger scale.

Then: In the cities were hungry people. On the farms were surpluses of food that bore down on prices without bridging the gap between the hungry people and the huge supplies. Today: In the world are great populations that live in hunger. On U.S. farms are immense surplus stocks of foods and fiber, but nobody seems able to figure out how to bridge the gap between.

Resulting alternatives are these: Either find ways to cut production or find ways to increase consumption both at home and abroad. Ways to cut production: (1) Force farmers to take land out of use on a scale large enough to bring a cut in output. (2) Force some farmers off the land by letting prices fall far enough to get rid of the inefficient. Trouble with No. 2 is that the efficient farmers get the land of the inefficient farmers and turn out more farm products than before. Soil bank, if the grass grown on acres in the bank is grazed, would add to cattle and dairy surpluses.

Ways to increase consumption: (1) Let prices fall in domestic markets and bolster farm income with checks. (2) Revive "stamp plan" to give food to low-income groups. (3) Subsidize exports to countries with hungry people.

Anything you do can cost a lot of money and be rather painful.

Idea of "coexistence" with Communism is backfiring. "Geneva spirit," it turns out, has given Communist leaders respectability and new opportunities to press out for gains from the non-Communist world. Under cover of Geneva's spirit, Communists are stirring increased trouble in many areas of the world not now Communist. Communists are assured that the West will not strike back, will not cause trouble within the colonial areas of Communism.

It all had seemed like a good idea to many officials at the time.

Mr. Eisenhower is expected to make known his 1956 plans before March 1. Until a decision is made, uncertainty tends to grow in party councils.

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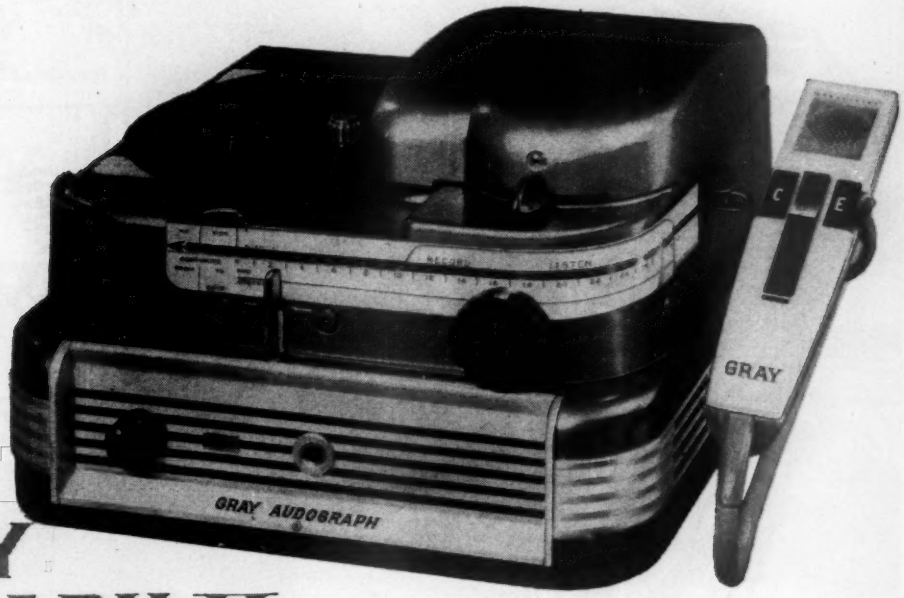

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WHY BUSINESSMEN ARE OPTIMISTIC

All Kinds of Cushions If Boom Does Slow

A business slide, if it develops in the period ahead, is to be mild, nothing like the collapse of 1929.

You find wide agreement on that.

In fact, as most appraisers see the future:

• Real depressions can be avoided, and probably will be for many years.

• Recessions, temporary corrections, can be expected from time to time. But these will be short and not too severe.

Why no depression? Many reasons are given—cushions, controls over boom-time excesses, new tools to deal with a setback, more knowledge of how to use those tools.

The boom in business, greater in size than any boom in history, is beginning to develop a few signs of trouble.

Farmers are badly pinched by declining income. There is a definite turn downward in home building. Complaints are heard that sales of new cars tend to be "sticky."

This developing situation is bringing to light two viewpoints. One is that the boom can go on and on with only minor interruptions, with the prospect of a nation vastly richer, and vastly stronger, 10 years or 20 years from now. The second view is that the boom even now may be on the verge of a downturn that can lead to depression.

With activity at record heights, thoughts of some business appraisers are turning again to the question:

Can there be another 1929—with its collapse and prolonged depression?

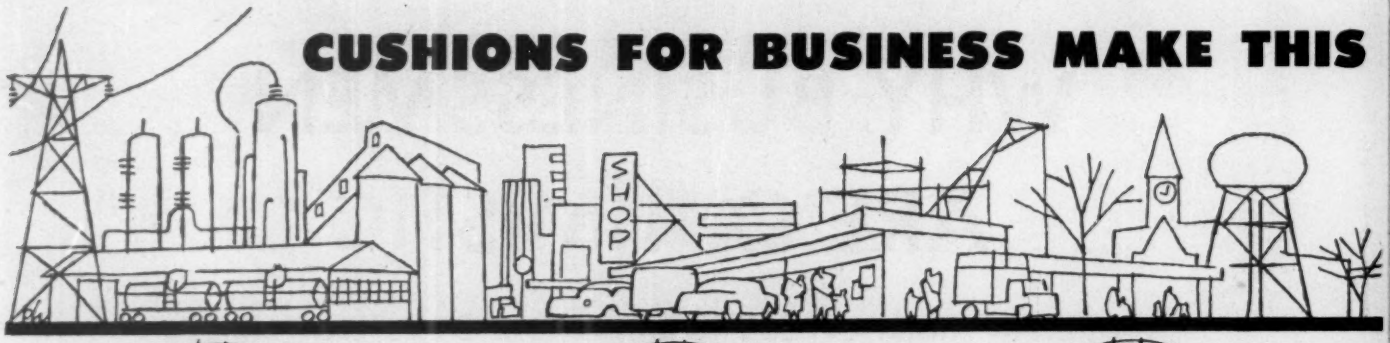
The group that foresees steady growth over the long years ahead crosses off that possibility. The other group is divided. Some members of this group believe that the country could have a severe depression, even if not as bad as 1929. Others doubt that anything comparable to 1929 will occur again.

No crash in sight. Actually, there is nothing in sight to suggest that a sharp depression is near. Depressions usually

—USN&WR Photo

CHRISTMAS SHOPPERS JAM THE STREETS
The mass market is a basic element of strength

CUSHIONS FOR BUSINESS MAKE THIS



Government Set to Act

THEN: Not much Government could do. Power limited. Responsibility for direct official action to head off a bust had not been recognized.

NOW: Full employment accepted as responsibility of Government. Official agencies ready with public works, loans, other measures to prevent a bust.

Depositors Insured

THEN: No protection for depositors when banks closed. People got panicky, queued up at banks to get money out. 9,765 banks failed in 5 years, 1929-33.

NOW: Deposits insured up to $10,000. Shares in savings and loan associations insured, too. 98% of all bank depositors fully insured.

Easy Terms on Mortgages

THEN: Customary mortgage term was 3 years. When times got tough, lenders demanded payment. Thousands lost homes.

NOW: Mortgages are spread out, payable like rent in 20, 25, even 30 years. No sudden demand for payment in full. Much less likelihood of foreclosure.

Little Speculation

THEN: Country was caught in wave of wild speculation. Thousands were buying stocks with borrowed money, bidding prices up. Brokers' loans mounted to 8.5 billions in 1929.

NOW: By comparison, very little speculation. Most stock buying on cash basis. Brokers' loans only 2.3 billions. Government requires 70% down payment on stocks.

Protection for Farmers

THEN: Farm prices fell 56% in 3 years. Not much Government could do to support prices.

NOW: Farm prices falling. But bottom will not fall out as it did before. Government buys up surpluses, makes loans, thus supporting prices of basic crops.

Protection for Wage Earners

THEN: Wage rates fell 22% from 1929 to 1933. Unions weak, only 3.6 million members. Few wage contracts.

NOW: Wages rising, and higher rates protected by contracts with employers. Unions strong, with 16.8 million members. Government adds to protection with minimum-wage law, unemployment insurance.

follow speculative excesses of one sort or another—in real estate, in commodity buying, in stock purchases. No such excess is apparent now, although the rise in mortgage and installment credit is causing concern. Official policy, in fact, is directed at preventing excesses from developing. Agreement is rather general that any decline next year from this year's record will be mild.

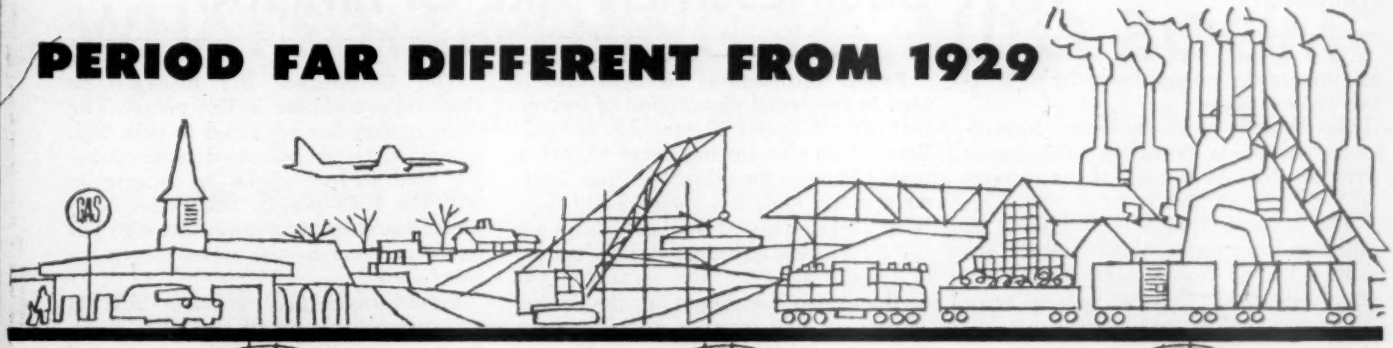
Still the question remains whether another 1929 can be avoided over the long-run period.

Most business appraisers believe that, while moderate ups and downs in business activity are to be expected, the country will be able in the future to avoid a collapse like that of 1929. The major reasons for expecting a more stable level of business activity are outlined in the accompanying chart.

The Government itself is generally regarded as the strongest guarantee against a depression. Congress put the Government firmly into the business picture by the Employment Act of 1946. That Act committed the Federal Government to adopt policies that tend to smooth out business fluctuations and to promote conditions of high employment. This policy has since been accepted by both political parties.

The Government also has a set of tools that can be used to influence the course of business. It can increase or decrease the supply of money and credit. It can make loans to business and individuals, or guarantee such loans. It can spend more on public works. It provides income

PERIOD FAR DIFFERENT FROM 1929



Billions in Benefits

THEN: No Social Security. No unemployment insurance. Little direct relief. Few pension plans. Total benefit payments by public agencies only 1 billion dollars a year.

NOW: Benefits paid by governments — federal, State and local — total 16 billions a year and are growing. Private pensions, other benefits add a billion.

Flow of Dollars

THEN: Money tied to gold. Government had less power to pump money out. In hard times, people hoarded gold, aggravating the money squeeze.

NOW: Money supply flexible. Money no longer convertible into gold. Government free to act, loosens money supply as necessary to deal with deflation.

Government Spending High

THEN: Governments — federal, State and local — spent 8.5 billions a year for goods and services. That was 8% of all spending in U.S.

NOW: Governments spend 77 billions a year for goods and services — 20% of total spending. Public spending tends to rise, not contract, in hard times.

Protection for Lenders

THEN: Government insurance, guarantees for lenders had not been heard of.

NOW: Billions in loans underwritten by Government. 43% of all home mortgages insured or guaranteed. Protection also on other types of loans to farmers, veterans.

Debt More Stable

THEN: Private debt, the kind likely to cause trouble in hard times, made up 84% of total, public debt 16%. When creditors clamped down, the collapse was hastened.

NOW: Private debt is down to 57% of total, public debt up to 43%. In dollars, private debt is way up, but amounts to only 1.1 times national income, against 1.8 times in 1929.

Big Savings

THEN: People had savings — currency, deposits, bonds, insurance reserves — totaling 73.4 billions.

NOW: People's savings are up to 344 billions. Subtract what people owe, and they still have net assets of 254 billions. Major part of this is held by higher-income people, but 70% of all U.S. families have some liquid savings.

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for the jobless and the aged. And, above all, it can lower taxes.

Tax cuts: quick-acting. Tax policy, in fact, is regarded as one of the Government's strongest weapons against depression. In times of business decline, taxes can be cut rather promptly.

Since nearly every gainfully employed worker now is a taxpayer, a cut in income taxes immediately puts money in almost everyone's pocket.

That simple device is believed to be far more effective than leaf-raking and other relief projects devised during the last big depression.

Tax policy as applied to business also has demonstrated its value. The fast write-offs allowed for new investment in plant and equipment are credited with stimulating business expansion in recent years. That's just one example of how taxes can be used to bolster business.

The flexible policy on money is another tool that is highly regarded. The dollar no longer is tied so tightly to gold, and individuals cannot influence the money supply by demanding gold themselves. Instead, the Federal Reserve Board has power to increase or decrease the money supply as business conditions change. This policy is credited with leveling off the inflationary boom of 1953, when money was tightened, and with helping to reverse the downturn of 1954, when money was made more plentiful.

Just now, the Federal Reserve is trying to prevent an inflationary bubble from

[continued]

WHY BUSINESSMEN ARE OPTIMISTIC

forming on the present boom by tightening money again.

Government and business, furthermore, now are co-operating more closely than in 1929 to keep business activity on a more even keel.

The banking system, for example, is much stronger today. Bank deposits are insured by the Government up to $10,000, and bank failures, which were common in the 1920s and soared to 9,765 in the 1929-33 period, are virtually unknown today. Banks, on the whole, are more liquid now than in 1929. They have heavy investments in Government securities that can be turned quickly into cash,

—USN&WR Photo

ON THE STOCK EXCHANGE . . .
. . . no signs of speculative excesses

and hence are not likely to feel compelled to call loans or foreclose mortgages on a wholesale scale.

Mortgages, too, are more soundly based than in earlier years. Mortgages now are made on a long-term basis—20, 25, sometimes 30 years—and are paid off in monthly installments. Before 1933, mortgages rarely ran beyond three to five years, and they fell due in a lump sum. Payment was demanded after the 1929 crash, and a wave of foreclosures resulted. That can scarcely happen again.

In fact, credit guarantees and a stronger banking system argue against the prospect of financial panics that often started and usually accompanied depressions of the past.

Power of income. Strength also is seen in the broad distribution of income that prevails today. The number of families with an after-tax income of $5,000 or more has more than doubled since 1941, while those with less than $3,000 have been sharply reduced. In these figures lies the explanation of the great mass market of America that stimulates demand for everything from shoestrings to automobiles.

These family incomes, moreover, are supported by labor-union contracts and minimum-wage laws and other Government benefits, as well as by prosperity. Unions now are strongly entrenched in major industries, and wage scales are likely to be maintained in periods of business decline. In contrast, wage rates fell 22 per cent from 1929 to 1933. In addition, the Government's Social Security program promises pensions to retired workers and payments to those who lose their jobs. High and rigid wage rates, however, could lead to more unemployment in event of a business downturn.

Even farmers, who have not shared in the recent boom, get some protection from Government. The prices of their products are supported. They receive conservation payments and other aid. And the Government now is casting about for a new and improved program of farm aid. That again is an example of how Government is expected to act when distress threatens.

The Government has managed to stave off speculation in this period. The stock market has advanced to new high ground, but little borrowed money is being used to buy stocks, in comparison with the 1929 period. The Federal Reserve Board requires stock buyers to put up 70 per cent in cash when they make purchases.

Governments play a direct role in supporting business, as customers. Government spending today, for goods and services, runs to 77 billion dollars a year, in contrast to the 8.5 billion spent in 1929. This spending includes outlays by federal, State and local governments. The outlook is for federal spending close to current levels and higher spending by State and local governments in response to demand for roads, schools, hospitals and other public services.

Business planning: stabilizer. Finally, there is the new attitude of business itself that promises to avoid deep depressions in the future. Business firms today make long-term plans and appear to be less influenced than in the past by short-term fluctuations in activity.

Long-range market forecasts are made, usually counting on the gains in population that now seem assured, and investment plans are fitted to the forecasts. The hope is that this policy will be more widely adopted, thus tending to stabilize year-to-year investments in plant and equipment.

Also, business and Government jointly are spending around 4 billion dollars a year in research—far more than has ever been spent before. This research is both a reflection of business optimism in the long-term future and a promise of new products, new processes and new gains in technology.

In fact, as business appraisers survey the present situation, they find it difficult to locate spots where serious trouble is threatened. They doubt that a solid, depression-proof economy has been developed in America. They expect recessions in the period ahead from time to time, just as there were setbacks in 1949 and 1954. But they believe that enough cushions have been built into the business structure today to thwart anything like the 1929 crash and the long depression that followed.

And, for the long run, most observers in Government and in industry are counting on continued growth and rising standards of living without severe setbacks.

For the views of a noted economist on prospects for continued prosperity, see page 54.

WHAT'S HAPPENING TO AUTO BOOM

Many Buyers, but More Cars . . . Stocks Growing

For a key to what's ahead for the boom, keep an eye on autos.

Sales of cars are high but slipping, falling behind output. Inventories are building up.

Will demand pick up in the spring? All business will be waiting to find out.

DETROIT

The automobile industry, at the end of a record year, is making cars much faster than it is selling them. As a result, cars are piling up on dealers in unprecedented numbers.

Industry men are saying they may have to cut production soon to solve this problem. If so, the auto boom is about to pass its peak.

That, in turn, will mean less overtime pay for auto workers. As consumers, they may buy less. Manufacturers will be ordering less steel, copper, glass, other materials. The boom in business generally will lose some steam.

Just how much is hard to foresee. Indications are that the effects will be mild. In terms of auto output, 1956 is likely to be the second or third largest on record.

Outlook on surplus. When industry men size up their problem they look first at the big and fast-growing stock of cars in dealers' hands. The latest "firm" estimate—for December 1—is 688,000. Industry experts say the number will approach 800,000 by New Year's Day.

By any historical test, that number is abnormal, way beyond the stocking up the industry usually does in advance of the spring selling season.

With 800,000 cars, the dealers can take care of about 11 per cent of a year's demand, assuming demand stays at the record level of 1955. Stated another way, they can go on selling for almost six weeks without getting another car.

The dealers are going into the new year with about 440,000 more new cars than they had on Jan. 1, 1955.

That presents the second point that is worrying some in the industry: Even in 1955, with the public buying nearly 7.3 million new autos, the inventory apparently has grown by about 440,000. Adding that many more autos is not in the plans for 1956. Either sales will set a new record or production will be cut. And the decision can't be far off.

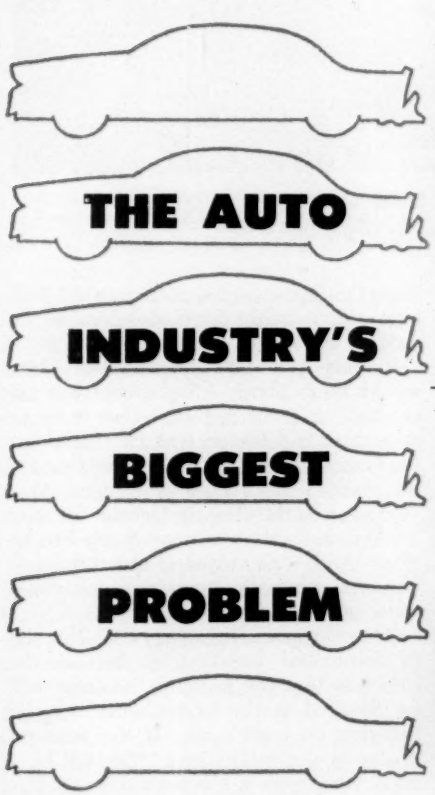
In the first three months of this year, the industry added 282,000 cars to its inventory. If it did that again, the number of unsold cars would be more than a million by April 1.

Throttle down Detroit? That's why a number of industry people are talking cutbacks.

The reasoning is simple: If sales stay high, at the 1955 level, production will have to be cut by 440,000 a year just to keep the inventory from growing. That is about a 5 per cent cut.

To reduce the inventory moderately—say, to 500,000—would take a 10 per cent cut in production. Many dealers favor a cut in inventories.

That is the prospect, if sales stay high. If they drop 10 per cent, the cut in pro-



In two months, October and November, 1955—

Manufacturers made this many new cars 1,215,000

Dealers sold this many new cars 1,065,000

So this many have been added to inventories 150,000

Number of unsold cars—

Now 688,000

A year ago 265,000

INCREASE . . . . . 423,000 or 160%

AS A RESULT, the industry faces a cut in production, unless sales gain sharply.

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[continued]

WHAT'S HAPPENING TO AUTO BOOM

duction to get the surplus down to 500,000 will be close to 20 per cent.

The only other way the industry can find to stop the pile-up of cars is to induce people to buy even more than they took in 1955.

Publicly, the companies have indicated they hope for a sales gain. If the forecasts for each make are added up, they suggest that the market will lift production to 9 million in 1956, about a million more than the 1955 record.

Privately, few, if any, officials expect the industry to make, let alone sell, 9 million. A growing number are doubtful that production will measure up to 8 million again.

One authority estimates output next year will drop 10 per cent, to about 7.2 million cars. An official of a major company thinks the drop may be as much as 20 per cent, to 6.4 million. A third source says there is likely to be less overtime work; that, of course, also would mean lower production.

Behind the sales lag. Optimists among the auto officials note that sales are running above the level of a year ago. However, it is proving difficult to keep up the pace that was set in the spring and summer of 1955.

The fact is that some 1956 models are proving more difficult to sell than was expected. Heavy sales may have taken a bit of cream off the market. And there are other factors that add up to a big change in the situation from a year ago.

At that time, inventories were rather low, about 265,000 on Dec. 1, 1954, as the chart on page 19 shows. They reached 362,000 on Jan. 1, 1955. Today the inventory is unusually large and growing more rapidly.

A year ago, restyling was substantial. The public seemed enthusiastic about new models. This year, restyling has been less striking.

In 1954, Government was loosening credit, making things easier to buy. Retail sales of new cars have increased 31 per cent in 1955, while the amount of credit extended on cars has increased 44 per cent.

That increase in borrowing for cars has been regarded unhappily by the Government. The fear is that easy credit will bring on inflation and raise sales—not just of autos but of many other things—to levels that can't be continued. So the Federal Reserve Board is slowly shoving down the brake, trying to avoid either a further large increase in loans or a sharp contraction.

Evidence in the auto market suggests this policy of moderation is taking hold, making it a little harder to buy cars on credit.

Meanwhile, there also is a change in the price situation. In 1954 and early 1955, prices paid by the consumer for cars were coming down, through ever larger discounts.

This season, prices may be a trifle higher, discounts allowed for.

Price cuts are one device the manufacturers might use to spur sales later on. However, cost of production has risen, and right now the factory prices are higher than they were a year ago. The dealers, with profit margins already squeezed, are squeezed again if they try not to pass this increase on to the consumer.

These changes will tend to make it hard to equal the 1955 record.

Trouble signs. Difficulty in getting rid of cars is indicated in two ways: a hangover of 1955 cars and a growing "bootleg" supply of 1956s.

Dealers generally say they were able to get rid of old models before the new ones became common. But you still can find bargains on 1955s.

These are just a few recent examples: Washington, D.C., dealers offer 250 new 1955 Packards and Clippers; a Long Island, N.Y., Plymouth dealer reports he has just received "additional brand-new '55 Plymouths" to be sold "below cost"; a Chicago dealer advertises 38 new 1955 Chevrolets; a San Francisco dealer asks for offers on "any of the brand-new 1955 Fords we have in stock."

Meanwhile, some new-car dealers are getting rid of 1956 models by selling them at small profits to used-car lots, the so-called "bootleg" market. This means that in some cities you get "new-used" cars at extra discounts.

These "new-used" cars are not counted in the inventory total; they are an additional hang-over on the market.

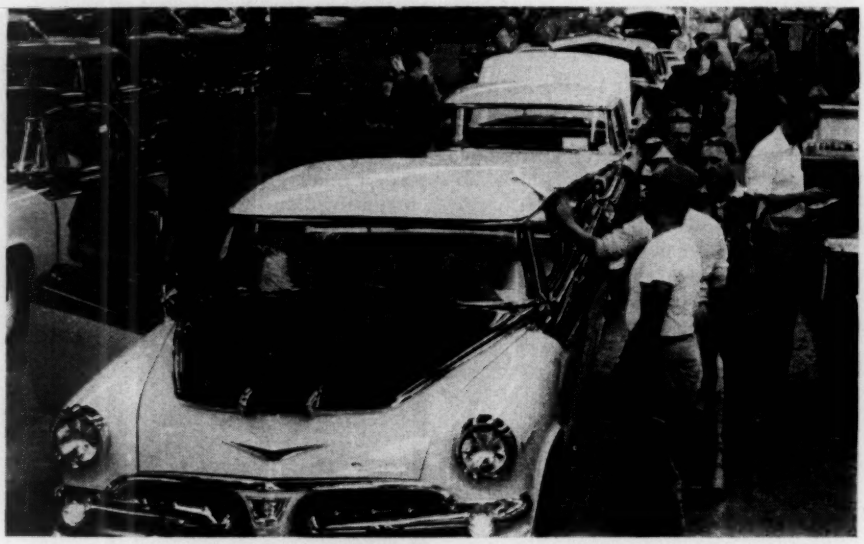
So far, these problems are giving the industry a mild case of worry, but do not seem to foretell a bad break in the market.

Effect on business. Studies by the Economic Unit of *U. S. News & World Report* suggest that a moderate drop in auto output might have considerable impact on the rest of the economy.

Twenty per cent fewer autos alone would mean about 4.5 per cent less use of steel, a small reduction but perhaps enough to end the present steel shortage. Repercussions might cut down demand for steel in other lines of business also.

However, the drop in income for auto workers and others is not expected to be great. And, with output at about 6.5 million, major manufacturers of autos would show good, though lower, profits.

This prospect, together with the dip in residential building, is behind the forecasts that the boom in business will be checked in the year ahead, without bringing on hard times. If the auto industry is any indication, 1956 will be a good year, even if the pace does slacken a bit as the new year wears on.



THE AUTOS ROLL OUT
Will the industry make as many in 1956?

BRITAIN BUILDS A MYSTERY CAR TO HOLD ITS WORLD MARKET

Just how revolutionary is the new British auto that people are talking about? How soon can you buy one?

Here's a report on the car—still at least two years away.

The car is said to be simple, light, fast, safe and cheap to run. It may be cheap to buy, too—if British makers junk conventional models and get into mass production in a hurry.

LONDON

The British, fighting to keep their place as the world's largest exporter of automobiles, are coming up with a radically new type of car.

It will take time to produce; it may be two or three years away. For Britain, it may come just in time to rescue her lagging sales to overseas markets.

Germany's auto exports, paced by the Volkswagen, now are running neck and neck with Britain's. Even U. S. auto makers, building plants in Commonwealth countries, are taking business from British exporters in markets the British once thought "safe."

The British Government is interested in the new car. It is helping the inventor seek a producer in Britain, is eager to get mass production for exports.

Still under wraps, the car is said to be of light and simple design with automatic transmission, four-wheel drive and nonskid braking. The engine can be placed front or rear. Four prototypes have been undergoing road tests here in Britain and on the Continent during the last two years. Gasoline consumption is said to have averaged 30 miles to a gallon when the car traveled at a speed of 90 miles per hour.

The new engineering ideas embodied in this car have been developed by Harry Ferguson, the British inventor who, 40 years ago, developed the farm tractor that bears his name.

To hurry it into production, the Government has lent the Ferguson group the services of Sir Miles Thomas, head of the nationalized British Overseas Airways Corporation and an experienced auto maker. Even so, it will take the British at least a year or more to tool up for the new car.

Exactly how the Ferguson car is put together is being kept a close secret. But the main features include a light chassis powered by an engine with an automatic-transmission system far simpler than the automatically operated gears now used by most American cars.

Base of this transmission system, it is thought, is a pump which directs a flow of hydraulic fluid into small turbines mounted at each wheel. As the engine runs faster, the flow of hydraulic fluid is increased, turning the wheels faster.

Braking system of the Ferguson car is thought to be based on disks mounted inboard of the wheels, eliminating brake drums. Some reports say that the Ferguson system uses the flow of hydraulic fluid to the wheel turbines to slow and to stop the vehicle.

When the car is braked, under this system, the hydraulic flow on the blades of the turbines is reversed. Idea is to provide equal braking pressure on all four wheels at the same time, thus limiting side skids. Eliminating the grasp of the conventional brake shoe is supposed to reduce the chance of locked wheels and a dangerous skid.

—Combine

HARRY FERGUSON
. . . an answer to the Volkswagen?

Each wheel of the Ferguson car is mounted with vertical-coil springing, thus, in theory, providing better road-holding qualities. With the addition of four-wheel drive, the Ferguson vehicle is supposed to be easier to handle over rough roads, snow, ice and even cross country, where there are no roads.

This suspension, it is said, permits experiments with lighter body features. Four models are being tested. These are a five-passenger sedan, a station wagon, a jeep-type military vehicle and a light version of the jeep that is driven by a motorcycle engine.

Bodies being tested are of two types. One type is constructed of a light metal alloy, the other is made of a plastic reinforced with glass fiber. Road-holding qualities of the new car, its supporters say, make it possible to build an automobile much lighter than conventional types, thereby also insuring large savings in fuel.

Engines for this new auto can be operated on kerosene, diesel oil or gasoline.

Ferguson officials claim their car can be produced, with automatic transmission and four-wheel drive, for about the same price as lower-priced British cars now on the market. Automatic transmission is still not available on such cars, and even the expensive British makes have automatic-transmission systems made in the U. S.

British auto makers are said to be cool toward the idea of throwing out expensive and highly integrated production lines in converting to a new type of automobile. The big manufacturers here have spent, or are spending, hundreds of millions of dollars on automation and new production systems for conventional models. Much of this machinery would have to be scrapped and equipment bought to produce the Ferguson car. New programs for selling, too, would be needed.

Entry in exports race? British Government economists, however, are looking over the auto makers' shoulders. They are warning that the Ferguson car will be offered to American makers if the British are slow to undertake its production. Motor-vehicle exports now account for 9 per cent of all British exports, but German competition is moving up fast. To hold the lead—not now, but a year or two hence—many Britons look to the revolutionary new car.

Will Food Prices Ever Drop?

Not Likely While Handling Costs Keep Rising

The farmer's loss in income from the things he grows, it turns out, is not the housewife's gain at the grocery.

Far less is being paid for many farm products, while final prices of those products are rising.

Do middlemen get too much? A study is planned to find out.

Here, in a nutshell, is the basis of irritation among housewives and of grumbling among farmers:

• A loaf of bread today costs 18 cents on the average, up 5 cents from 1948. Yet, the wheat in that bread costs the miller 3.16 cents, while seven years ago it cost him 3.24 cents.

• The roundsteak that the housewife buys today costs her 91 cents a pound, on an average. That is the same price she paid in 1948. However, at recent prices, the steer from which that round steak came returns the farmer about 13 to 14 cents a pound. Seven years ago, it brought him 22.4 cents a pound, 60 to 70 per cent more.

• Pork chops sell now for an average price of 81 cents a pound. That is 4 cents more than the average price in 1948. The farmer, however, now gets 12.2 cents a pound, only about half the 23.3 cents that he got seven years ago.

• Milk now costs 24 cents a quart delivered to doorsteps in the city. That is 2 cents higher than in 1948, but the price the farmer is receiving today is 9.6 cents a quart, a penny less than he got in 1948.

The products that a farmer has to sell often are returning him far less than they did even a short time ago. Yet, those products, when processed and sold to the consumer, often are just as high in price as they ever were.

The housewife does not profit, in other words, from the farmer's troubles.

More for middlemen. Somebody in between is taking more of the dollar the housewife spends while the farmer gets less. For farm products as a whole, the shrinkage of that portion of the housewife's dollar going to the farmer has been 12 cents in the nine years following the postwar year of 1946. The farmer at that time got 52 cents of each dollar spent by the housewife on food. Now he gets only 40 cents.

As the price to the farmer goes down, the wage of the worker who handles his products goes up. The truck driver makes more. The trucker charges more. The wage earner in the food-processing plant gets more. The processor usually maintains his margin. Packaging costs more. The retailer holds his price as long as he can and sometimes earns more as prices to the farmer go down.

In 1955, it is estimated by Agriculture Department economists, U. S. consumers will spend 46.3 billion dollars for food. That will be 8.6 billion dollars more than they spent, on the average, each year from 1947 to 1949. But all of this 8.6 billion dollars will go to middlemen. The farmer's take from city spending on food remains exactly the same as it was five years ago, when he was selling a smaller

On many farm products . . .

FARMERS GET LESS— CONSUMERS PAY MORE

PORK CHOPS *(per pound)*

	1948	TODAY
Price paid by housewife	77c	81c
Price received by farmer *(for live hogs)*	23.3c	12.2c

ROUND STEAK *(per pound)*

	1948	TODAY
Price paid by housewife	91c	91c
Price received by farmer *(for live cattle)*	22.4c	13.1c

MILK *(per quart)*

	1948	TODAY
Price paid by housewife	22c	24c
Price received by farmer *(for raw milk)*	10.6c	9.6c

Note: Current prices are latest national averages available.

Source: Department of Agriculture, Bureau of Labor Statistics

amount of food to a smaller U.S. population.

If the farmer were to receive, this year, an increased amount for his products, just as the middleman is getting more, then the consumer would find his food bills considerably higher. The consumer would have less to spend on automobiles, TV sets and other items that go to make life pleasant for Americans who live away from farms.

In effect, say farm leaders, the farmer is making a sacrifice in what he gets for what he has to sell, so that city people can enjoy more of the luxuries of life.

The squeeze. The farmer, on the other hand, is finding it more difficult to buy luxuries. He finds himself squeezed between lower prices for what he has to sell and higher prices for the things he has to buy in these days of mechanized farming.

It is this squeeze that creates the farm problem about which you are hearing so much. Many farmers complain that they are being forced to dip into savings or to borrow in order to pay living expenses.

What can be done to bring the farmer a better price for his products? One suggestion is to reduce the final cost of these products to the consumer by paring the charges that are heaped on them as they move through marketing channels.

Ezra Taft Benson, Secretary of Agriculture, says he soon will make an investigation to determine whether some middlemen are getting too large a margin of profit compared with times past. He will try to find out if there is something to the farmers' assertion that demand for farm products would go up if only the lower price that the farmer receives could be passed on to the housewife.

Some clues to what Mr. Benson's investigation will turn up are found in figures compiled by the Economic Unit of *U. S. News & World Report*. These figures show just how much of the food dollar spent by the housewife goes to farmers, laborers and industry.

In the period 1947-49, farmers got an average of 48.7 cents out of each food dollar, 24.9 cents went for labor costs in processing and selling farm products and 3.9 cents went to profits for processors and distributors. The remainder, 22.5 cents, went for transportation and other costs.

This year, it is estimated that the farmer's share of the food dollar will be down from the 1947-49 period by about 9.2 cents, while labor's share will be up by around 7.3 cents. Profits of processors and distributors are expected to be down at least 1.5 cents. Transportation and other costs will be up 3 to 4 cents.

Cue from labor? Thus, it appears that any significant reduction in the cost of farm products at retail will have to come out of labor, transportation or other costs. That any of these will be reduced is not considered likely.

Farm leaders, noting the success of organized labor in getting wage boosts, have long wished for a method of organizing farmers so that they could bargain for prices that they deem fair. The present farm program of price-support loans in return for cutbacks in acreage is, itself, an attempt to organize farmers behind a production-control scheme. It has proved to be only partially effective, at best.

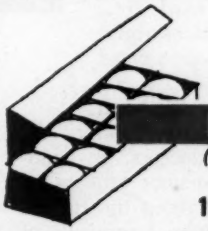
Now Congress, in 1956, will be taking a look at other plans to organize farmers to cut production. One is the "soil bank" plan, under which farmers would be paid to retire land from production and put it into soil-building crops. Another is the so-called "Brannan plan," which would let farm prices seek their level in the market place. Then farmers would get a Government payment for the difference between the market price and a support price. Production would be controlled by limiting payments.

Nobody is predicting at this time whether these plans, or others, will win congressional approval. This much, however seems certain: If farm income is to be bolstered, the money to do it with will have to come out of consumer pocketbooks in one way or another—either in higher prices at the store, or in taxes to pay subsidies to the farmer.

How today's prices compare with those of 1948, one of the farmer's best years:

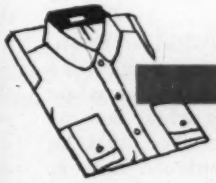
BREAD (1-pound loaf)

	1948	TODAY
Price paid by housewife	13c	18c
Price received by farmer (for wheat in 1 loaf)	3.24c	3.16c



EGGS (per dozen)

	1948	TODAY
Price paid by housewife	72c	68c
Price received by farmer	48c	43.4c



SHIRT

	1948	TODAY
Price paid by consumer	$3.89	$3.59
Price received by farmer (for cotton in 1 shirt)	25.7c	25.9c

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HOW FAR IKE HAS COME BACK

President Overdid, Now Must Slow Down

The real story of Ike at Gettysburg shows too much work, too little rest during the period of his convalescence.

Back of the scenes, old friends of the President were not surprised at the finding of the doctors that he worked too hard.

By presidential orders, the tough problems had been put before him in the same old way. Ike found it hard to "take it easy."

GETTYSBURG, Pa.

Before his doctors told him to slow down, President Eisenhower had increased his working day to six hours. On the advice of the medical men, the President then took five days of almost complete rest from office duties.

The workday of the immediate future is expected to total three and a half to four hours. This day will be broken by two and a half hours for lunch and rest. The doctors insist that nothing be done to disturb the President during this rest period.

It is expected that the length of the working day will grow in the weeks ahead. There was a period of five weeks after Mr. Eisenhower's heart attack when he did no regular work and was isolated almost completely from the worries of his office.

Signs of "fatigue." President Eisenhower left Washington on August 14 for his Colorado vacation. It was while he was on vacation, not while he was under the strains of his office, that he suffered a coronary thrombosis. Late in November, after returning to his farm at Gettysburg, the President began to resume more and more of his duties. A physical examination at the Walter Reed Army Medical Center in Washington on December 10 turned up evidences of "fatigue."

Orders to go more slowly followed. Before this, Mr. Eisenhower had held many meetings with top officials of the Government. He made basic decisions about the budget, including one to increase defense spending. He met with leaders of both parties in Congress. He approved the plans of Ezra Taft Benson, the Secretary of Agriculture, for dealing with the farm problem.

With such decisions as these out of the way, fixing the White House course for the immediate future, Mr. Eisenhower can rest more and work less in the days immediately ahead.

More pressure. New matters are rising, however, that will increase the pressure upon the President immediately after the Christmas holidays.

The last time the President held a press conference was on August 4, three and a half months ago. Reporters have accumulated many questions they would like to put to him. As things stand, however, it is expected that any future press conference will be on the basis of having reporters submit written questions. The answers they get may also be written, rather than oral.

The return of Congress is sure to place added strains upon the President, with day-to-day decisions that have to be made. By that time, too, international developments will be crowding in upon the President to demand his attention.

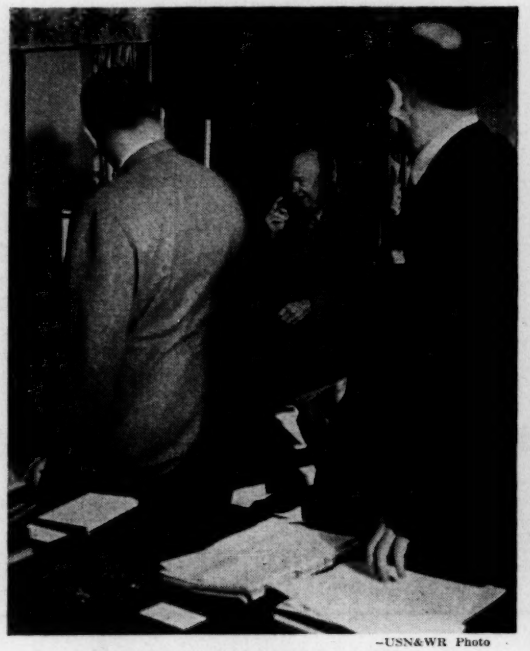
Moreover, as the 1956 election year wears on, problems of domestic politics are to mount. There will be partisan attacks in Congress by Democrats. And Republicans, growing daily more anxious, will have a hard time holding back their questions about the President's intentions toward a second term.

Mr. Eisenhower is to approach the developing problems under the watchful eyes of his doctors. By mid-February, there is to be some kind of an approach to a decision about the future. This is to be based upon appraisals of his ability to resume full-time activity.

The former "grind." Before his illness, Mr. Eisenhower was working a minimum of nine hours a day. His waking hours ran to 17 hours a day. He arose at 6:30 a.m. and did not get to bed until 11:30 p.m. or later.

In those days, the President breakfasted at 7 a.m. and usually got to his office by 8 a.m. The next five hours went into talks with his aides and numerous visitors; studying papers on his desk, and dictating replies to letters that demanded his personal attention.

The first real break in the President's working day came at 1 p.m. when he took an hour for lunch. Even this period often was spent in conference with a luncheon guest. From 2 p.m. until 6 p.m., the President was back at his desk. Most of this time went to reading documents, studying legislation, dictating letters, writing speeches. On Wednesdays, he often closed his desk for a trip to the golf course, but this was not always possible.



–USN&WR Photo

CABINET MEMBERS TO SEE
. . . and pressing decisions to make

From 6 p.m. until his 11:30 p.m. bedtime, the President tried to call his time his own. Before dinner, he took a light workout in the gymnasium or painted, sometimes swam. At dinner, his big meal of the day, he enjoyed roast beef, steak or fried chicken. When possible, he spent his evenings quietly with Mrs. Eisenhower, watching television or a movie, painting or playing bridge.

Evening work, too. Yet Mr. Eisenhower found that presidential duties often crowded in upon his time in the evenings. There were official dinners and receptions that had to be given or attended. There were guests to see, and he held dinners for businessmen and politicians.

More and more, Mr. Eisenhower found, the Presidency tended to become a full-

time job. Even on the golf course, politics or Government policies would bob up in conversation. It was hard for him to escape his job.

Now the doctors are trying to cut Mr. Eisenhower's working schedule in half, or to an even smaller fraction if this can be done. As indicated by the chart on this page, the President has been allotted from one and a half to two hours of work each morning and afternoon, with long intervals of rest between the working periods.

This was done when Maj. Gen. Howard McC. Snyder, Physician to the President, and other doctors found that Mr. Eisenhower was tiring himself too much. Even before the report of the doctors, presidential aides saw that the work was wearing Mr. Eisenhower down.

After Cabinet and National Security Council meetings, friends reported that Mr. Eisenhower looked tired.

Not easy to rest. Mr. Eisenhower finds it hard to slow down to half speed, to let others handle his decisions, or to rest. When one aide urged him to take things a little easier, the President replied warmly: "If I'm President of the United States, by golly, I'm going to accept the responsibilities or resign."

Thus, the President has been tackling troublesome problems during his convalescence. Aides are instructed to draw up programs for Cabinet and National Security Council meetings in just the same way as they did before his illness.

"I would say that some of the meetings we have had with Ike in recent weeks have been among the most difficult in this Administration," says one official.

At the beginning of the meetings, friends report, the President starts off with a fresh head of steam and looks "like the old Eisenhower." He is alert, emphatic, asks penetrating questions and makes prompt decisions. But, as the day wears on, the tempo begins to tell. His face shows strain at the end.

Ike's impatience. In the days ahead, doctors fear they are going to have trouble keeping Mr. Eisenhower to a milder schedule. He no longer obeys them readily, as he did at Denver. Under the press of business, he tends to forget his rest periods. If one of his aides reminds him, the President is likely to express his annoyance in fairly blunt terms.

On the whole, however, the President is trying to slow down. He is trimming his schedule to about half of what it was in the pre-Denver days and getting more rest. The new routine will be followed at least through the Christmas holiday period.

Latest report of medical men on the President's rate of recovery starts on page 92.

This Is Ike's Day

7:30 a.m.
Gets up, has pulse and blood pressure checked.

8 a.m.
Eats breakfast.

8:45-10 a.m.
Takes light exercise, usually a walk.

10 a.m.-12
Works at office, dictating letters, conferring with White House staff and visitors. On Thursday, meets with National Security Council. On Friday, meets with Cabinet.

12-2:30 p.m.
Eats lunch, then is due for an hour's rest—but sometimes refuses to take this much time off.

2:30-4 p.m.
Returns to office for light work, such as dictating letters. If there's a feeling of strain, stops all work.

4-6 p.m.
Takes more exercise, walking around house, chatting with friends and members of the family.

6-8 p.m.
Eats dinner, relaxes.

8-10 p.m.
Sometimes plays bridge with friends, or watches TV or movies.

10:30 p.m.
Goes to bed. Goal: eight to nine hours of sound sleep.

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IS PRESIDENCY BARRED TO AMERICANS BORN ABROAD?

Among men being mentioned as possible future Presidents are three who were born outside the United States: Christian A. Herter, F. D. Roosevelt, Jr., and Herbert Hoover, Jr.

The question is now being raised whether these three men—or any other American born abroad—can legally become President.

Reason for doubt is that the Constitution says only "natural born" citizens are eligible for the Presidency. And no court has ever defined what "natural born" means.

Now, for the first time, a thorough study of this important question has been made. The author, Cyril C. Means, Jr., arbitration director of the New York Stock Exchange, is an expert in constitutional law.

Mr. Means tells here what the problem is—and how he thinks a court would decide it.

By Cyril C. Means, Jr.

"No Person except a natural born Citizen or a Citizen of the United States at the time of the Adoption of this Constitution shall be eligible to the Office of President; neither shall any Person be eligible to that Office who shall not have . . . been fourteen Years a Resident within the United States."

—*Art. II, Sect. 1, par. 5, Original Constitution (1787).*

". . . no person Constitutionally ineligible to the office of President shall be eligible to that of Vice President of the United States."

—*Twelfth Amendment (1804).*

One out of every 200 *born* Americans is not a native of the United States but is a child born abroad of American parentage.

Natives, irrespective of parentage, are "natural born" citizens, in the sense of the original Constitution's presidential-eligibility clause. Those of foreign birth *and* parentage, who are individually admitted to American citizenship by judicial proceedings subsequent to birth, are not "natural born" citizens and are ineligible. It is only the tiny group between the larger two—the citizens by parentage, as they are sometimes called—who present a question.

A citizen by parentage is one who, though born outside the United States, is a citizen from birth because one (or both) of his parents, at the time of his birth, was an American citizen. Acts of Congress declare who are citizens by parentage. From 1790 to 1934, only an American *father* could transmit citizenship by parentage to his child born abroad. Since 1934, either parent, if a citizen, does so.

Few today, citizens by parentage already number such notable figures as Under Secretary of State Herbert Hoover, Jr., former Representative Franklin D. Roosevelt, Jr., and Governor Christian A. Herter of Massachusetts, who were born, of American parents, in England, Canada and France, respectively. Governor Herter's growing mention for a place on the Republican ticket in 1956 has revived the question of the constitutional eligibility of such citizens to the nation's highest office.

In coming decades, the numerous progeny born abroad to the hundreds of thousands of American couples, civilian and military, stationed in occupied and Allied countries since World War II, will reach maturity and present the question—unless by then it has been authoritatively answered—on a broader scale.

Citizens by parentage, like natives, are *born* citizens. In this respect both natives and citizens by parentage differ from nonnatives of foreign parentage who are naturalized, after birth, by judicial proceedings to which they or their parents are parties.

On the other hand, in 1898, six justices of the Supreme Court expressed the opinion that citizens by parentage were not less "naturalized" than those of foreign parentage and birth individually admitted to citizenship by judicial proceedings after birth. Acts of Congress, said these judges, conferred "citizenship upon foreign-born children of citizens" as a class, and other acts of Congress enabled "foreigners individually to become citizens by proceedings in the judicial tribunals," but both types of legislation were enacted pursuant to Congress's constitutional power "to establish an uniform rule of naturalization."

While this passage in the majority opinion in that case (United States v. Wong Kim Ark) was not necessary to the decision of the question there presented, and thus is not a binding precedent, it is an important pronouncement by six of the country's foremost judges. In no case has the question of the presidential eligibility of citizens by parentage been decided, commented on or even argued.

Does it follow from the fact that citizens by parentage are "naturalized" that they are ineligible to the Presidency? Not at all. The Constitution does not say that a "naturalized" citizen is ineligible, but that only "a natural born Citizen" is eligible. If, therefore, it is possible for one to be a natural-born and a naturalized citizen at the same time, such a person is eligible.

The vast majority of citizens are either natural-born and not naturalized (i.e., natives) or naturalized and not natural-born (i.e., those of foreign birth and parentage, admitted to citizenship after birth). The only group left is citizens by parentage.

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. . . "'Natural born Citizen'" is found "only in Constitution"

They are "naturalized," from the moment of birth, under pre-existing acts of Congress. The controlling question, however, is yet to be answered: Are they also "natural born" citizens, within the meaning of those words as used in the presidential-eligibility clause?

"Natural born Citizen"—like its British progenitor, "natural born subject"—never was an expression in common use, and today is but an archaism. It has not appeared in a federal statute since 1795. For 160 years, the only American legal text containing it has been the presidential-eligibility clause in the Constitution of 1787.

—Black Star

CYRIL C. MEANS, JR.

That instrument was framed in Philadelphia by a Federal Convention consisting of 22 laymen and 33 lawyers. Every one of the 55 had been born a "natural born subject" of the King and a native of the Empire, 47 having been born in the 13 colonies and 8 in other dominions of the Crown. Since 1708 a British statute had provided that the children of British fathers born outside the Empire were "natural born subjects," and since 1714 a clause of the English Act of Settlement of 1700 had been in effect which disqualified, for life, from all manner of officeholding, all persons born outside the Empire, "although . . . Naturalized . . . Except such as are born of English Parents."

Thus, the legal system in which the 33 lawyers among the framers had been trained, and under which all of them had grown to manhood, contained important statutory enactments characterizing citizens by parentage both as "natural born subjects" and as "naturalized," but assimilating them to natives, rather than to other naturalized subjects, in regard to eligibility to office. To the framers in 1787, there would have been no incongruity in suggesting that a citizen by parentage was both "naturalized" and "natural born"; to them, "native" and "naturalized" were the mutually exclusive terms, which never overlapped nor applied to the same person, while "natural born" and "naturalized" did overlap in every case, and only in the case, of a citizen by parentage. Moreover, there is some indication in the records of their proceedings that their use of the term "natural born" may have been with deliberate intent to qualify citizens by parentage for the Presidency.

Virginia alone among the 13 colonies attempted a thoroughgoing revision and codification of the English statutes during the Revolutionary period. The Virginia citizenship law of 1779 (authored by Jefferson and Wythe) conferred citizenship by parentage upon Virginian children born abroad. In an amendatory act of 1783, a disqualification from all manner of officeholding was imposed on all citizens who should become such, after birth, through judicial naturalization proceedings, but natives and citizens by parentage alike were exempted from this disqualification. The Virginia acts of 1779 and 1783 thus reproduce, in operation and effect, the British system set forth in the parliamentary acts of 1708 and 1700, respectively, although the Virginia legislation did not employ the words "naturalized" or "natural born" to describe the varieties of citizenship conferred.

The Federal Convention of 1787 debated the qualifications of Representatives and Senators on August 8, 9 and 13, before getting to those of the President. There was a group, spearheaded by Gouverneur Morris of Pennsylvania and Pinckney of South Carolina, who would have favored restraining eligibility to the Senate to "natives," but were willing to compromise at a residence requirement of 14 years. (The most recent immigrant among the eight delegates who were not natives of the 13 colonies, Hamilton, had landed in New York 15 years before.) The Gouverneur Morris-Pinckney faction was opposed by a group of "liberals"—Hamilton, Franklin, Madison and Wilson—who were against any constitutional requirement of a period of citizenship for holding office, and favored leaving the fixing of such requirements to Congress as an incident of its power to establish "an uniform rule of naturalization." The debates were spirited, and resulted in a compromise whereby 9 years' citizenship was required of Senators, and 7 of Repre-

CHRISTIAN A. HERTER
. . . born in France

HERBERT HOOVER, JR.
. . . born in England

—Wide World, United Press

FRANKLIN D. ROOSEVELT, JR.
. . . born in Canada

. . . "An American crown for son of George III" was rumor

sentatives, and both requirements were spelled out in the Constitution.

Advocate of confining public office to natives though he was, Gouverneur Morris also favored a proviso which would have imposed these requirements only on citizens thereafter naturalized. Those who supported this saving clause argued that those already naturalized had been granted equality with natives under State laws, and that it would be a breach of good faith for the new Constitution to deprive them of this, even for a limited period. The proviso failed of adoption by only one vote.

Against Foreigners in Government

Meanwhile, on July 25, 1787, John Jay, in New York, had written Washington, as president of the Federal Convention:

> "Permit me to hint whether it would not be wise and reasonable to provide a strong check to the admission of foreigners into the administration of our National Government, and to declare expressly that the command in chief of the American Army shall not be given to, nor devolve on, any but a natural *born* citizen." (Underscoring Jay's.)

Jay had been Chief Justice of New York, and was soon to become the first Chief Justice of the United States. Children had been born to him abroad while he, accompanied by his wife, was on diplomatic missions in Spain and France during the War of Independence. Both as a lawyer and as a father his use of "natural born citizen" rather than "native citizen" is significant.

What prompted Jay's "hint"? The very day he wrote Washington, a Connecticut newspaper (the *Fairfield Gazette*) published the text of an anonymous "letter," dated Philadelphia, June 19, intimating that the Federal Convention (which was sitting behind closed doors) was concocting a monarchical form of government and planning to invite Prince Frederick Augustus, the second son of George III, to accept an American crown. Jay had seen enough of monarchies in Madrid and Paris; he had no desire to see one established here. As Secretary of Foreign Affairs under the Articles of Confederation, he doubtless heard of the Frederick Augustus rumor even before it was published in the *Fairfield Gazette*. A requirement of natural-born citizenship for our chief magistracy would effectively exclude European princes.

Hamilton, in Philadelphia, got hold of a copy of the "letter" purportedly disclosing the Frederick Augustus scheme on August 20, and was sufficiently disturbed to write to friends in Connecticut asking who was behind it. They eventually assured him that it was a "fictitious performance," manufactured in their State by a republican Federalist to frighten anti-Federalists into accepting a stronger national Constitution lest a worse fate (monarchy) befall them. Some former Tories, however, had got behind the scheme with sincere support.

At any rate, the framers felt it prudent to "leak" the following unofficial statement to the Philadelphia press, which was published in the *Pennsylvania Journal* on August 22:

> "We are informed that many letters have been written to the members of the Federal Convention from different quarters, respecting the reports idly circulating that it is intended to establish a monarchical government, to send for [Prince Frederick Augustus], &c. &c.—to which it has been uniformly answered, 'though we cannot, affirmatively, tell you what we are doing, we can, negatively, tell you what we are not doing—we never once thought of a king.'"

Meanwhile, inside Independence Hall, the framers were attending to the matter. On August 20, Gerry of Massachusetts moved that the Committee of Detail "be instructed to report proper qualifications for the President." On August 22, Rutledge of South Carolina, for the Committee, reported the following: "He shall be of the age of 35 years, and a Citizen of the United States, and shall have been an Inhabitant for 21 years."

This 21 years' residence requirement was an admirable way of excluding European princes, but it also disqualified three of the eight foreign-born among the delegates: Hamilton, McHenry of Maryland, and Butler of South Carolina. Interestingly, Jay's "natural born citizen" suggestion to Washington either was not transmitted by him to the Committee of Detail, or, if it was, was not adopted by it, at this point (August 22).

Keeping Royalty Out

On September 2, however, Washington wrote Jay thanking him for the "hints contained in your letter" (of July 25), and, on September 4, the Committee of Eleven (the drafting committee which succeeded the Committee of Detail) redrafted the presidential-eligibility clause to provide that "no person except a natural born citizen or a citizen of the United States at the time of the adoption of this Constitution shall be eligible," and reducing the residence requirement from 21 years to 14, which would still be adequate to exclude foreign princes, but would restore to eligibility all 55 delegates.

One sees in the "citizen . . . at the time of the adoption of this Constitution" clause a reincarnation of the saving proviso which Gouverneur Morris (a member of the Committee of Eleven) had favored for Congressmen on August 13. Since the 14 years' residence requirement applied to natives and naturalized alike, there was no defaulting, in respect of those already naturalized, in the States' undertakings that they were to be on a par with natives.

For those born or naturalized *after* the adoption of the Constitution, however, a discriminatory regime was set up. Some would be eligible; others would not be. A line had to be drawn between the two groups. Where? It would have been easy to draw it, in terms, between "natives" and "naturalized." In the debates on Senators' and Representatives' qualifications, the delegates had spoken of "natives" and "native Citizens" 13 times, of "natural born citizens" not once. The latter expression makes its first and last appearance, in their proceedings, in the September 4 report of the Committee of Eleven, which was adopted by the Convention unanimously and without discussion.

Six of the Committee of Eleven were members of the bar, and a seventh had studied law. It is very difficult to account for their adoption of the term "natural born citizen," in preference to the "native citizens" of the floor debates of August 9 and 13, unless they believed the former to be the term which more accurately reflected their purpose.

This leads one to focus attention on the difference in legal meanings between the two terms—as they were understood by minds steeped in the English legal tradition in 1787—and the only difference which such scrutiny reveals is that, whereas all "natives" (except the children of foreign diplomats and invading armies) were "natural born subjects," the converse of this proposition was not true. Some "natural born subjects" were not "natives," and these were none other than foreign-born children of native parentage.

If, as seems very likely, Washington passed Jay's "hint" to the Committee of Eleven and mentioned its source, those

. . . Constitution imposed "a lifelong disqualification"

who knew of Jay's foreign-born progeny would have an additional reason for thinking of citizens by parentage. As Jay had held the nation's highest post under the Articles of Confederation—President of Congress—such details of his family life must have been matters of widespread knowledge.

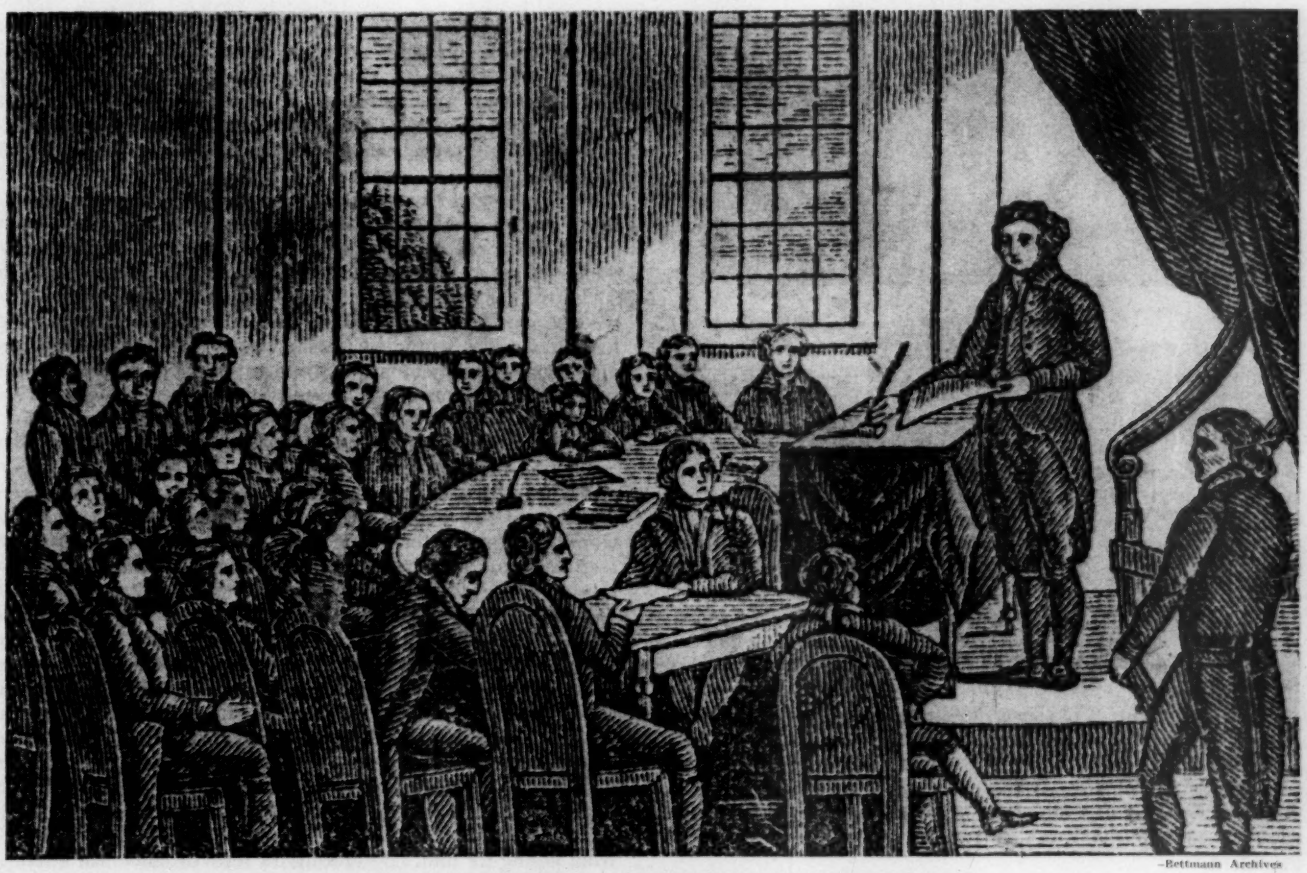
In enacting the earliest naturalization law under the new Constitution, the First Congress provided for judicial proceedings for the admission, subsequent to birth, of citizenship of individuals of foreign birth and parentage, and declared them simply "citizens." In a separate sentence, it declared that, as a class,

> ". . . the children of citizens of the United States, that may be born beyond sea, or out of the limits of the United States, shall be considered as natural born citizens."

This clause was inserted in the House of Representatives, at the behest of a member who made specific reference to the English Act of Settlement of 1700 as the precedent Congress ought to follow. The members of the First Congress (of whom 20 had been delegates to the Federal Convention, and 8 members of the Committee of Eleven) thus appear to have been expressing the opinion that citizens by parentage were eligible to the only office (the Presidency) as to which the Constitution had followed the Act of Settlement in imposing a lifelong disqualification. The Act of Settlement had disqualified those born abroad "although . . . Naturalized . . . Except such as are born of English Parents"; the Constitution had disqualified everyone "except a natural born citizen." The First Congress thus appears to be expressing the opinion that these two disqualifications were identical in scope.

A question does arise as to whether it is a legislative function to express such an opinion as to the presidential eligibility of citizens by parentage, or whether such a declaration goes beyond Congress's power "to establish an uniform rule of naturalization." In 1795, the Third Congress passed the second naturalization law, which repealed and superseded the 1790 Act. The 1795 Act characterizes the foreign-born children of citizens, along with other nonnatives, who, after birth, are individually and judicially naturalized, simply as "citizens," dropping the "natural born" characterization discriminating the former from the latter which had been in the Act of 1790. The 1795 practice has been followed in subsequent nationality legislation.

While the debates preceding the 1795 enactment are too sketchily reported to clarify why this particular change was made, we do know that Madison was chairman of the House committee where it was made. By this time Madison had shifted from his early Federalism and broad-constructionism to his later anti-Federalism and strict-constructionism, as appears from his speeches on other features of the 1795 bill; probably this accounts for his deletion of "natural born" from the 1790 text. If so, this means not that Madison thought



—Bettmann Archives

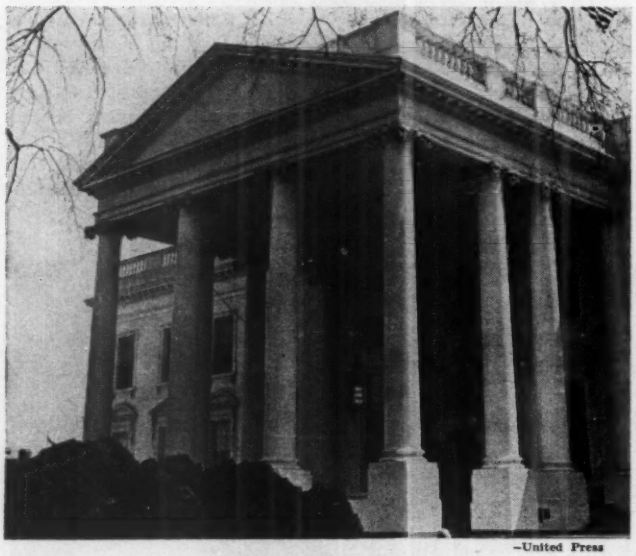
THE CONSTITUTIONAL CONVENTION IN PHILADELPHIA
One faction wanted to confine public office to "natives"

. . . "Someone might attempt to enjoin the electors"

that the First Congress had been in error in ruling that citizens by parentage were "natural born" and therefore presidentially eligible, but merely that that Congress had acted beyond its delegated powers in making such a ruling.

As a convert to Jeffersonian States' Rightsism, Madison in 1795 may have believed that no federal authority was competent to declare what citizens are "natural born" and therefore presidentially eligible, and that such a function was among the undelegated powers reserved to the several States. Subsequent Supreme Court decisions have made such a doctrine untenable, but a good argument can still be made that, while some branch of the *Federal* Government is empowered to determine this question, Congress is not that branch.

Article III of the original Constitution deals with the "judicial Power of the United States." It does two things with this judicial power: It tells who shall exercise it, and it



—United Press

THE WHITE HOUSE
No American born abroad has occupied it

defines the cases to which it extends. In general, Article III says that the judicial power is vested in the federal courts. It also enumerates, among the cases coming within the scope of the judicial power, "all Cases . . . arising under this Constitution."

Where the Constitution itself prescribes the qualifications for an office, as it does in the case of the President, Vice President, Senators and Representatives, controversies concerning the existence of such qualifications in a particular individual would clearly seem to be "Cases . . . arising under this Constitution," and therefore, by the very words of Article III, within the scope of the federal judicial power.

In the case of Senators and Representatives, however, Article III is not the only part of the Constitution which must be considered. There is also Article I, which expressly provides that "Each House shall be the Judge of the . . . Qualifications of its own Members." There is no special clause like this concerning the qualifications of President and Vice President.

In 1929, the Supreme Court had before it a case involving certain exercises of power by the Senate in judging the qualifications of one of its members. The Court held that the power the Senate was exercising was "not legislative but judicial in character" and that, in exercising it, the Senate "acts as a judicial tribunal" whose jurisdiction over such questions is exclusive, so that such questions cannot be tried in the ordinary federal courts.

In other words, the Supreme Court held that the clause of Article III vesting federal judicial power generally in the federal court system had been overridden by the exception made by Article I's provision that each house should be the judge of its own members' qualifications; this provision, in effect, makes each house a special court for that single purpose. On the other hand, the Supreme Court was careful to assert that the questions before the Senate, sitting as a special court, were of a kind to which, in the absence of the special provision in Article I, the power of the ordinary federal courts would extend. That is to say, they were questions which, in their nature, were susceptible of resolution by judicial power.

This is important, because the qualifications of the President and Vice President, as laid down by the Constitution, are of the same type and character as those of Senators and Representatives, as prescribed by the same instrument. On the other hand, as there is no special court created to try controversies concerning the qualifications of the President and Vice President, it follows that these come within the jurisdiction of the ordinary federal courts.

The apprehension has sometimes been voiced that the federal courts, because they refuse to decide "political" questions, would decline to decide whether a given citizen was eligible to the Presidency as a natural-born citizen. In the light of the Supreme Court's reasoning in the 1929 case concerning the qualifications of Senators, and the logical inferences therefrom, I find this contention impossible to accept. A question remains legal, though it has political consequences.

While it would be presumptuous to predict how the federal courts would decide either the question of their own jurisdiction or (assuming a favorable decision on the jurisdictional issue) how they would answer the question which is the title of this article, it is my opinion, based on the reasons above discussed, that the federal courts would assume jurisdiction and would be justified in deciding that American children born abroad are eligible to the offices of President and Vice President of the United States.

No Challenge—No Decision

The question will never be decided by a court, however, unless someone brings it there in a concrete case. Now, it would be possible for a citizen by parentage to be nominated and elected, and serve out his term or two, without the question ever being litigated by anyone.

There are three stages at which someone might challenge such a candidate's eligibility. (1) Before the conventions. Somebody might try to keep his name off the ballot in the presidential preference primary in some State. (2) Between the convention and the meeting of the electoral colleges in the several States. Someone, in some State, might try to prevent his name's going on the ballot which "advises" the presidential electors how the population of the State thinks they should cast the State's vote. Or someone might even attempt to enjoin the electors, although already so "advised," from voting for him. (3) During his term of office. An attempt might be made to challenge the bills signed by him as legal nullities.

What a Bigger U.N. Means

Communists Pick Up Votes, West Still in Control

When you look at the new line-up in the United Nations:

U. S. and its allies still hold a clear majority. Adding new members gives the Communists a boost, but not control.

Next big issue, already brewing, will be over Red China.

NEW YORK

Within the United Nations, enlarged by 16 new members to a total of 76, the Communist bloc of votes now stands at 10, if you include Yugoslavia.

Non-Communist nations will account for 66 seats in the new lineup. Of these, 11 are held by "neutrals," such as India, that often vote with Soviet Russia. But the U. S., its allies and friends still hold 55 seats—a clear majority.

Ten of the new members are considered friendlier to the West than to the Communists. They are Ireland, Portugal, Italy, Austria, Cambodia, Laos, Spain, Libya, Jordan and Ceylon. Two others, Finland and Nepal, are expected to play a neutral game. Four—Albania, Rumania, Hungary and Bulgaria—are Communist.

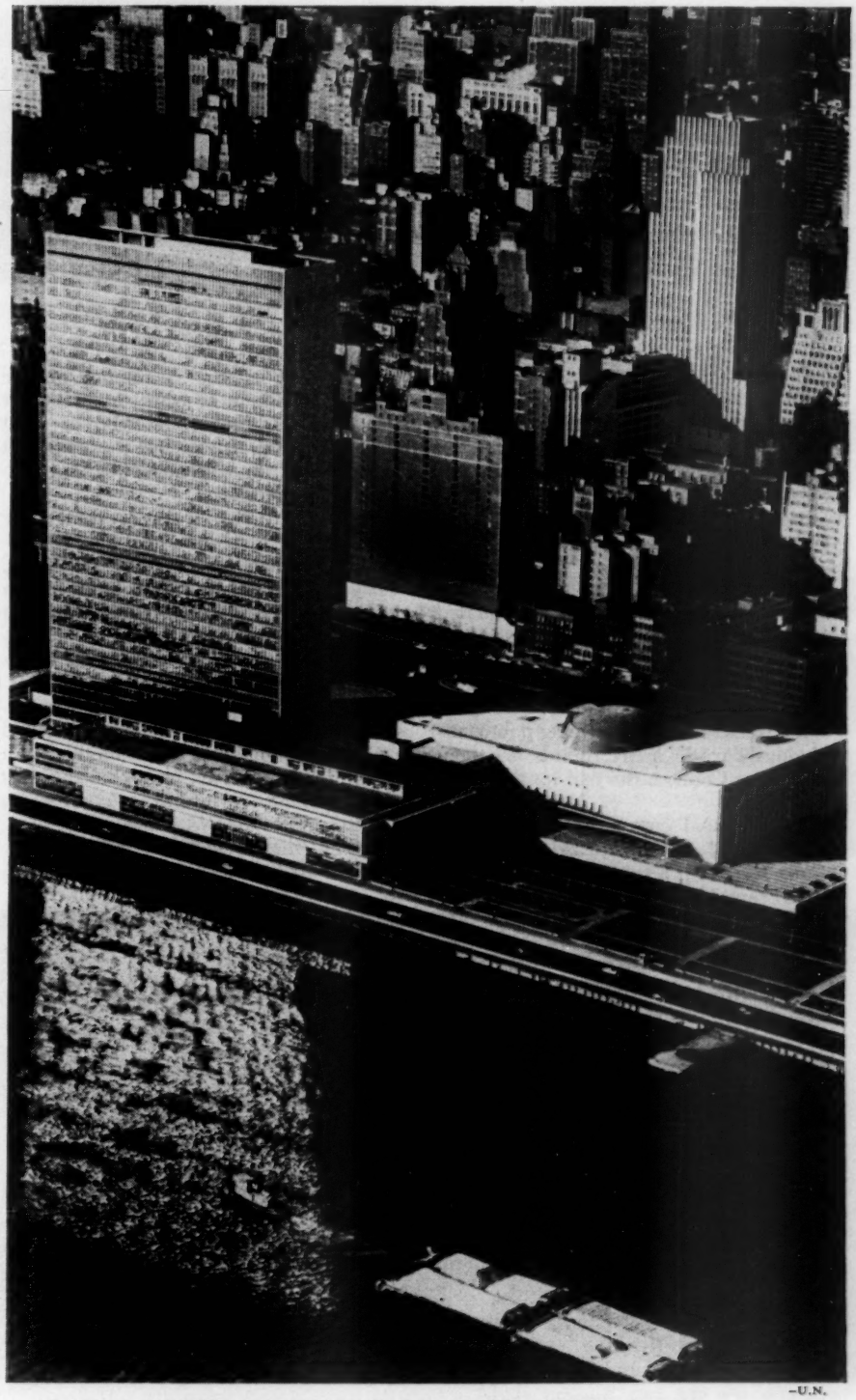
The 16-nation package deal gives the U. N. its biggest boost in membership since its founding, in 1945.

The last newcomer to make the grade was Indonesia, in 1950. Before then, only eight others had been added to the charter list. Russia has used its veto power 45 times to override majority decisions and keep out non-Communist nations.

Anti-Communist countries have relied on majority decisions against Communist applicants except on December 14 of this year, when Nationalist China used its veto to block the admission of Communist-run Outer Mongolia. On the same day, Soviet Russia used the veto 15 times against countries backed by the U. S.

Eight countries representing a total population of 200 million people still cannot get into the United Nations. They are Communist Outer Mongolia, North Korea, North Indo-China and East Germany; and anti-Communist Japan, South Korea, South Indo-China and West Germany.

Also still on the side lines are the Communist Chinese demanding the seat held by the Nationalists. That, probably, will be the next big fight over seating in the United Nations.



—U.N.

UNITED NATIONS HEADQUARTERS IN NEW YORK
Next squabble—Red China?

In India—

TOP REDS REALLY CASHED IN

Following Khrushchev and Bulganin around India showed this—

Moscow won, U. S. lost on that tour.

The visitors made a big hit with India's millions. They made a hit with the leaders, too. Soviet prestige is way up—often at the expense of the U. S.

What comes next?

Soviet technicians are set to take up the act, to help Mr. Nehru industrialize.

Local Communists are getting in the act, too. They're cashing in fast on the good will their Moscow bosses scattered around.

Reds may be riding high by Election Day.

NEW DELHI, India

American prestige in India really took a beating during the personal-appearance tour of Moscow's Nikita Khrushchev and Nikolai Bulganin. The evidence is inescapable for anyone who watched the goings on at first hand.

Suspicion of America—never far beneath the surface here—has now been stirred up to a degree seldom equaled. Meanwhile good will toward Russia is at a new high. Communist Party chief Khrushchev and Soviet Premier Bulganin, whistle-stopping across the nation for three weeks like barnstorming politicians, obviously made many friends for themselves, for Communism and for the Soviet Union.

Even casual conversations show that the outlook for American interests in India has taken a turn for the worse and that Prime Minister Nehru is going to have a lot of trouble trying to toe the mark of neutrality between East and West.

Anti-American reaction. Talking with Indians in all walks of life, you discover that the biggest single factor responsible for the dip in American prestige was the statement by Secretary of State John Foster Dulles referring to Goa—an area on the coast of India—as a "Portuguese province." Regardless of the statement's intent, practically all Indians took it as U. S. backing for Portuguese colonialism at the very time Khrushchev was supporting India's claim to Goa. Nothing has caused a more bitter reaction against the U. S.

Altogether, well over 10 million people saw the two Russian gladhanders in person. Millions more will see them in the newsreels. It is true that at the beginning of the tour many illiterates who turned up for the parades didn't know who or what they had come to see. But the word got around, and there is no doubt that millions were impressed.

Everywhere the Russians went they were folksy, good-humored and considerate of Indian customs and traditions. They put on Ghandi caps and Indian turbans. They often greeted people in native language. They also used the Indian form of greeting—clasping the hands together in a prayerlike gesture.

Indians are not used to seeing foreigners act that way. The British never did during their years in this country. As a result, the Russian act went over big with the populace. A typical reaction came from one spectator who declared:

"Why, they're just like us!"

Later that same day, when an American extended an arm to shake hands with an Indian acquaintance, the Indian, instead, joined his own hands in the prayerlike gesture of greeting and said, "Why don't you do this? The Russians do."

—Wide World

BULGANIN AND KHRUSHCHEV
Maharaja garb and Indian-style greeting paid off

More than courtesy. Nearly everywhere they went, the Russians were received with an enthusiasm that cannot be explained away as mere courtesy. Among the segment of the Indian population that stands just above the illiterate millions, the things Khrushchev and Bulganin said counted just as much as the things they did. Their loud attacks on colonialism, their constant talk of peace-loving friendship, and their offers of economic help for India brought rousing responses.

A random survey among fairly well-educated people in the audience at one speech showed the majority was convinced that Khrushchev was "sincere" about wanting peace. Welcoming speeches of many Indian officials reflected this feeling. For example:

The Bombay State governor greeted the Russians with the sentence, "That your country stands firmly for peace is not questioned seriously in any quarter."

The chief minister of Mysore told them, "Your efforts to banish war and establish peace have won for you the admiration and gratitude of the war-weary world."

The chief minister of Jaipur said, "We in India have always held in the highest veneration your great leaders—Lenin and Stalin."

To most such words of welcome, Khrushchev or Bulganin usually replied in the native language with a phrase such as: "Indians and Russians are brothers!"

—Wide World

RUSSIAN WHISTLE-STOPPERS WITH MR. NEHRU
The Reds' bait: aid in industrialization

India's top leaders certainly did not fall 100 per cent for everything Khrushchev and Bulganin said. But they are attracted to the prospect of economic aid from the Soviet Union. Prime Minister Nehru is in a hurry to industrialize. He has an ambitious five-year plan which he intends to set in motion next spring. If the West will not provide what he needs, Mr. Nehru is quite prepared to have the Russians do it.

Role of steel. The foundation of the Indian program is steel—and it is this product that the Russians emphasized in their bid for closer ties with India. They have agreed to sell a million tons here in the next three years. They are building a steel plant on credit. Of course, Western countries are also building steel mills for India, but it is the Russians who are getting most of the attention.

There is more to the Soviet campaign in India than the show put on by the men from the Kremlin. Technical-assistance programs are bringing many Communist technicians into the country now, and more are to follow.

Russian experts are here to help India search for oil, to advise on expansion of the diamond industry, to explore for nonferrous metals. They are working on the blueprints for the next five-year plan. Soviet engineers are on hand to supervise the building of the steel plant, and 300 more steel technicians are due. Hungarian geologists are already here evaluating potential deposits of coal.

All of these things are thoroughly ballyhooed, while Western economic aid is generally ignored or taken for granted. The result is that the Russians get more praise for the small things they sell India than the U. S. gets for the big things it gives away.

One reason is that Russia's economic help is concentrated on spectacular deals such as the steel plant, while most American aid is dispersed in little-noticed community projects. Another reason is the traditional suspicion of Western motives. This country has never experienced Russian colonialism. But its people remember when they were living in a British colony.

Distrust of the West pervades the newspapers. A newly arrived American cannot help but be astonished at the amount of anti-Western carping he encounters. Here is a typical press comment:

"In the current atomic controversy, the Soviet presents on the whole the better case. She did not drop the atom bomb; she has time and again urged a gentlemen's agreement to renounce use of nuclear weapons; the United States has refused. While again the Soviet assures that she will not be the first to use nuclear weapons, the other side prefers to be the first."

It is this background of feeling about the West that helped the visiting Russians to come off so well during their tour. For a time it seemed that they may have gone too far in their attacks on the U. S. and Britain, and at the end of their stay there was some press criticism of their farewell statements. But, on the whole, they did very well for themselves and their homeland.

Although Prime Minister Nehru fights the Communists at home as vigorously as ever, most observers believe the warm receptions his Government accorded Khrushchev and Bulganin have given new prestige to the local Reds. Their leaders can now go out among India's illiterate millions and bask in Mr. Nehru's tremendous national popularity by saying, "We Communists are well loved by Nehru, as you can see."

The real effect, politically, of the Russian visit cannot be measured until the next general elections here. They are still a year away. To most observers, the interval between now and then is the crucial period.

If the Russians come through with economic aid as promised, India will be setting its five-year plan in motion with the help of the Russians at the very time that American aid is dwindling. And Soviet technicians and advisers are going to start pouring into the country—bringing with them practiced techniques of propaganda and subversion.

By the time Election Day arrives, Communist prestige in India may well be riding very high—a direct result of the strategy set in motion by the goodwill tour of Khrushchev and Bulganin.

—European

INDIAN DEMONSTRATORS
Rising: suspicion of U. S., good will for Russia

Christmas 1955

AMERICAN GI'S SPENDING THE HOLIDAY SEASON IN 63 LANDS AWAY FROM HOME

Source: Department of Defense

AMERICANS IN UNIFORM will be spending this Christmas in 63 foreign lands, as this country's far-flung guardians of peace on earth.

There are 550,000 soldiers, thousands of them young draftees, overseas for this Yuletide season, on every continent and in every climate.

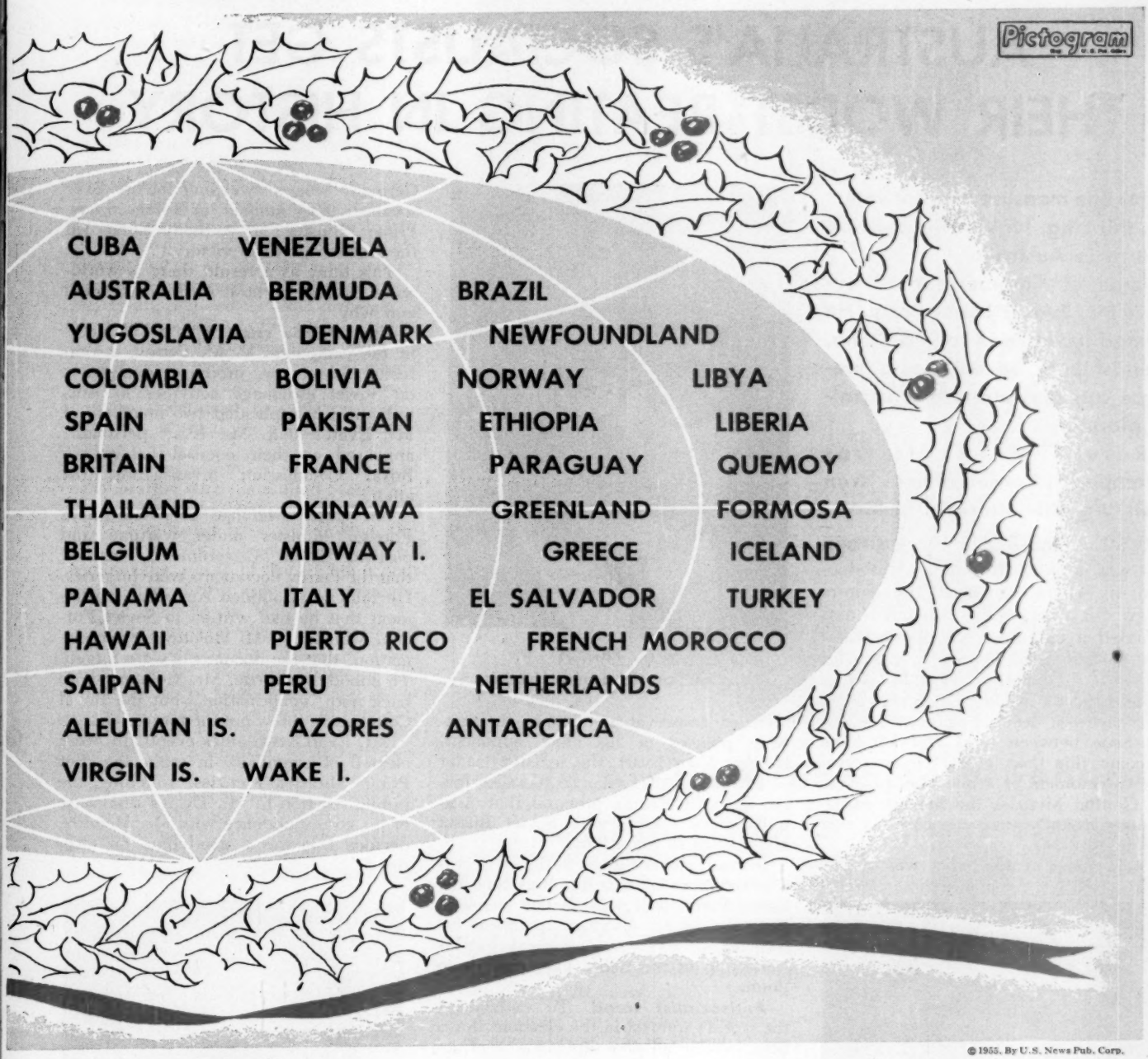
In the Navy, 400,000 U. S. youths are outside the country—some at sea, some serving at the 62 overseas naval bases from Alaska to the Antarctic. With them, doing guard duty around the world, are 40,000 Marines.

In addition, there are 260,000 U. S. airmen overseas at this time, stationed around a world-wide network of 95 overseas air bases.

Nearly half of the 2.9 million Americans now wearing the uniforms of the armed forces, in other words, will be serving abroad for this Christmas season. Some will celebrate in festive foreign capitals, including London, Paris and Rome. Others will be manning lonely radar stations in the Far North.

In Europe alone this Christmas are five U. S. divisions, backed by support forces in nearly every country west of the Iron Curtain. About 40 major U. S. air bases are operating there, as well. And the U. S. Sixth Fleet is serving full time to guard the Mediterranean.

In the Far East now are three Army divisions, the U. S. Seventh Fleet and dozens of air units. GI's still guard vital sectors of the front in Korea. Other young Americans man air-combat organizations on Formosa, Japan, Oki-



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nawa, the Philippines. Some are performing training missions in Indo-China, some acting as advisers on Quemoy.

Thousands of U. S. youths in uniform will spend Christmas on islands scattered over the world's oceans.

A whole division of GI's is stationed in mid-Pacific, with headquarters on Hawaii. Small units are located on islands of the Aleutians, on Wake, Bikini, Kwajalein, Iwo Jima, other islands spotted across the Pacific.

Island-based GI's are stationed, too, at frigid bases on Greenland, Iceland and Newfoundland, in the North Atlantic—and in sunny vacation lands such as Bermuda, the Azores, Puerto Rico.

There are young Americans manning an Army division in the Panama Canal Zone, where Christmas temperature usually is a pleasant 75 degrees, while other Americans make up a division in Alaska, where their quarters now are snowed in and temperatures are far below freezing.

In addition to those in military units, U. S. youths are serving abroad as members of military missions and military advisory groups. These Americans in uniform are helping to train the military forces of about 60 non-Communist countries in the use of U. S. arms and methods.

Besides these GI's, other small groups are stationed in foreign countries—including Russia and satellite nations—as military attachés and embassy guards.

It is the million American GI's manning overseas bases, however, that the West is counting on most to keep the peace this Christmas season.

AUSTRALIA'S SOCIALISTS GET THEIR WORST BEATING IN HISTORY

For one measure of what voters are thinking, look at the election returns in Australia—

Issue of Communism all but sank Mr. Evatt's Labor Party. He offered recognition to Red China, friendship to Soviet Russia, defense cuts and a return to socialist planning.

Result: Mr. Evatt was swamped. Conservatives won their biggest victory in history.

MELBOURNE, Australia

It was in an Australian general election six years ago that the voters threw out a socialist Government and signaled a turn back to conservative rule for much of the postwar world.

Now—with another election season opening in the West—the voters down here have just decided again on a clear-cut issue between right and left. The outcome this time gives the conservative Government of Prime Minister Robert Gordon Menzies the biggest parliamentary majority any party coalition ever had in Australia.

Main issue at the polls was simply Menzies conservatism against the left-wing policies of his chief opponent, Herbert Vere Evatt, the socialist leader of Australia's Labor Party. A major factor was Mr. Evatt's proposal that Australia make friends with Soviet Russia and recognize Red China.

V. M. PETROV
His disclosures aroused voters

Instead, voters turned to the conservative coalition in such numbers that the Labor Party itself was all but wrecked. Not only did Mr. Evatt run poorly in his own bid for a seat in Parliament, but his leadership of the Labor Party now is in doubt.

Antisocialist trend. To understand the world's interest in the elections down here, which all the diplomats in Canberra, Australia's capital, are reporting in detail to their home governments, look at the record of what happened in 1949.

First, New Zealand, then Australia, at the end of 1949, turned out their socialist leaders and brought back conservatives. These countries seemed out of touch with a world which had turned to left-wing parties after World War II.

Instead, they set the pace for a worldwide trend. Britain, when its elections came along in October, 1950, ousted a Socialist Government and brought back Sir Winston Churchill's Conservatives. In the U. S., two years later, Republicans won. Next year the conservatives of West Germany won a sweeping victory over socialists. Last summer, in Britain, a new Prime Minister, Sir Anthony Eden, led the Conservatives to victory.

This time, as a result, there is worldwide interest in how Australians voted and why.

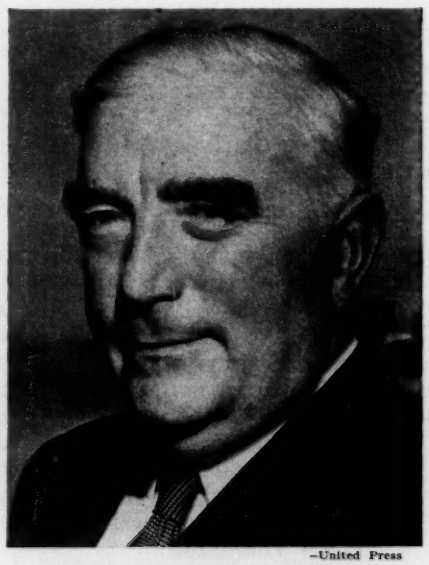
The "Petrov case" was a big factor in the campaign. V. M. Petrov, a confessed Soviet spy, produced documents on Soviet espionage activities in Australia which implicated two members of Mr. Evatt's staff. Mr. Evatt personally appeared as their counsel before the Royal Commission investigating the affair.

Mr. Evatt, who had been Australia's Foreign Minister under wartime and postwar Labor Governments, insisted that the Petrov documents were forgeries. He told an astounded Australian Parliament that he had written to Soviet Foreign Minister V. M. Molotov for "confirmation" that the documents were forged. To nobody's surprise, Mr. Molotov wrote back with "confirmation," but the Royal Commission threw out the forgery charge.

Mr. Evatt's two aides eventually were cleared of complicity in espionage. But Prime Minister Menzies, watching the public reaction to Mr. Evatt's disclosure of his correspondence with Mr. Molotov, decided this was a good time for elections.

—United Press

HERBERT V. EVATT
For the left, a resounding defeat



—United Press

PRIME MINISTER MENZIES
For conservatives, a record majority

As the campaign began, Australia was prosperous. Wages were high. But Mr. Menzies, working with a narrow margin of support in both houses of Parliament, wanted a bigger majority to tighten credits and limit imports. Mr. Evatt, for Labor, proposed an excess-profits tax for big corporations, a cut in defense costs, easier old-age pensions, and socialist controls of prices, rents and the like.

Charge and countercharge. Charges of pro-Communism and "McCarthyism" flew thick and fast from both sides. Mr. Menzies cited an "extraordinary parallel between Communist and Labor policies." Mr. Evatt branded as "McCarthyism" a Menzies proposal to outlaw the Communist Party. This proposal was held unconstitutional by the Australian Supreme Court in 1951 and, finally, a constitutional amendment to outlaw Communists was rejected by voters in a referendum.

Both sides supported continued close collaboration with the United States. Mr. Evatt, however, was critical of the ANZUS mutual-defense pact linking Australia, New Zealand and the U. S. He wanted the recall of Australian troops now helping British forces fight Communist-led guerrillas in Malaya.

Trouble soon developed for Mr. Evatt within his own party. A faction broke away from his leadership to set up the Anti-Communist Labor Party. This group looked for support, in part, to the Australian Roman Catholics, now more than one fifth of Australia's 9 million people.

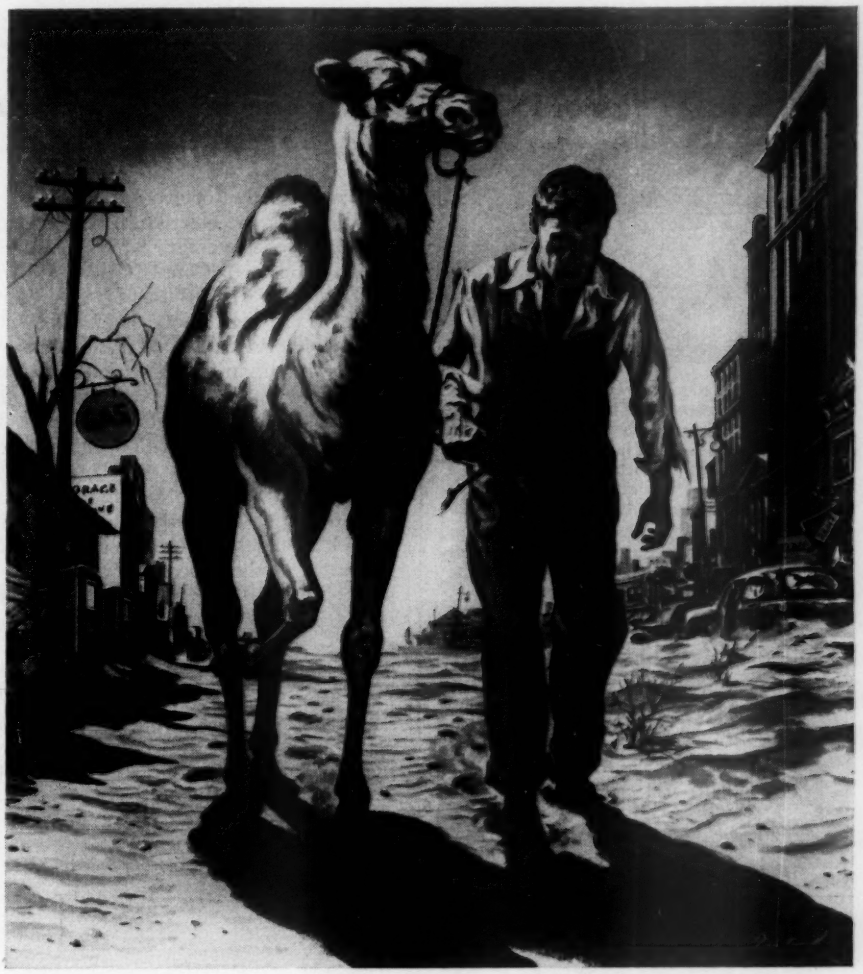
Communists, too, put up candidates, but they were not an important factor in the campaign. All of the 40 Communist candidates lost their $60 deposits. A candidate had to forfeit his deposit if he got less than one fifth of the winning candidate's votes.

The record turnout of voters was the result of the boom in postwar immigration from Europe. More than a million new people have come here since 1945. Like all Australians over 21, they were required to vote. Those who fail to cast a ballot without an acceptable excuse are fined 2 Australian pounds—around $5.

Under the voting system used here, Australians are required to list their preferences in order. When there are three candidates, for example, each voter marks his first choice as "1," his second as "2," his third as "3." In a close race between two candidates, the votes of the third man are redistributed among the leaders according to the voters' second choice.

This system, plus a heavy vote from Australians overseas, slowed down the count. Results of the balloting for Senate seats, particularly, may not be made

(Continued on page 38)



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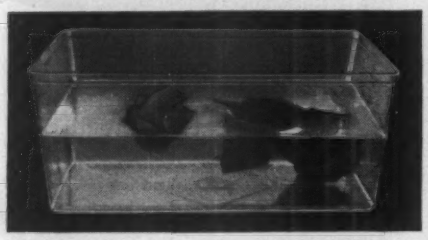

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[*continued*]

SOCIALISTS TAKE A BEATING

known officially for weeks. Even so, on the day after the election, it was apparent that the Menzies conservative coalition of the Liberal and Country parties had a landslide in the House of Representatives, where legislation originates.

The victory for Mr. Menzies' conservatives was the more remarkable because the parties outside his coalition got more votes than the two parties within it. But the opposition was divided against itself.

Preferential voting, under these conditions, helped Mr. Menzies. The Anti-Communist Labor Party told its followers to pick Menzies' conservatives, not Evatt's followers, as their second choices. As a result, many nonconservative votes went to the Menzies group in close races for House seats.

Before the elections, the conservatives held only 64 seats out of 123. Now they hold at least 76 seats to Labor's 45. That's a record in Australia. If this majority holds together it can get legislation through Parliament even if control of the Senate, still in doubt, is not in conservative hands.

"Stood on record." A British correspondent here, commenting on the difficulties that Mr. Evatt had in persuading even his own Labor Party, much less the independent voters, to follow his left-wing line, said this:

"While Labor dissipates so much of its energies washing its own dirty linen in public, the Prime Minister, Mr. Menzies, has deemed it necessary to do little beyond flinging in extra handfuls of detergent. Mr. Menzies merely stood on his record and let Mr. Evatt appear as the dupe, if not the friend, of Communism, and as the villain of the Petrov inquiry."

Leadership of the Labor Party now is in grave doubt. Mr. Evatt, a former high-court judge and once President of the United Nations Assembly, had enormous prestige in Australia until he got involved in the Petrov case. Under his leadership, the Labor Party lost twice before—in 1949 and 1954. This third defeat, the most crushing of all, is likely to force a change in party command.

The Menzies victory at the polls, however, does not mean that the Administration is secure from attack, particularly when Mr. Menzies undertakes the economic reforms he desires. There is a threat of strikes from labor unions already complaining about rising living costs. There are reports, too, that Mr. Menzies would like to retire soon to become the Australian High Commissioner in London, traditionally a top reward for Australia's elder statesmen.

In Australia, which marked the end of a postwar trend toward socialism six years ago, the voters show a growing preference for conservative parties and against left-wing candidates who want to appease Communists and Soviet Russia.

—Wide World

AUSTRALIA'S GOVERNMENT HOUSE IN CANBERRA
World diplomats are watching the swing to the right

DR. JOHN: WHAT'S HIS GAME?

When West Germany's top agent went behind the Iron Curtain, he took a lot of Western secrets with him.

Now Dr. Otto John is back in West Germany, claiming he has Communist secrets for the West.

Why did he go? Why did he come back? Here are some of the answers being tested.

Big question, however, is: Whose side is he really on?

BONN

Dr. Otto John, mystery man of the shadow world of espionage and counterespionage, is turning out to be more of a mystery than even his closest associates ever suspected.

Dr. John—the title comes from a degree in law, not medicine—was an ardent anti-Nazi. He was a leader in the 1944 bomb plot to kill Adolf Hitler, a plot that almost succeeded. He lived to tell that tale while most of his fellow conspirators were executed. By the end of 1950, he was at the head of the West German security and espionage system—outwitting the Communists. But, 17 months ago, Dr. John passed through the Iron Curtain. From a top role in the intelligence system of the West, he apparently turned to the service of the Communists.

Now this German agent is back again, with an offer to make amends by helping the anti-Communist cause.

Man of many faces. What is Dr. Otto John? Double agent? Master spy? Genius at intrigue? A warped idealist, now disillusioned?

The impression gained by some of those digging for an answer to the strange riddle of Dr. John is that he could be a little of all of those things. The mechanics of intrigue, the excitement of risking his life for information are, by now, second nature to this German agent.

This time, Dr. John plotted and schemed for weeks to get back to the West. He established secret contact with the West German Government. He received assurances that, if he came back, he would be questioned but not arrested, that there would be small chance of his being prosecuted for treason.

One intermediary, who for months had been seeing Dr. John in the Soviet sector at frequent intervals, turns out to be a Danish newspaperman. In the end, it was this correspondent who drove the escape car from the Soviet sector of Berlin to Tempelhof Airfield in the U. S. sector. Allied and West German secret agents also had been watching Dr. John's movements, reporting on what he was doing, to what extent Communist agents kept an eye on him.

The 1954 flight. Intrigue of the same sort preceded Dr. John's flight into the Soviet sector. In March, 1954—four months before he turned to the Communists—Dr. John received a visitor in his inner office. This visitor, Baron Wolfgang von Putlitz, formerly a German diplomat, was a Communist agent who boldly proposed that Dr. John desert to the East.

—Wide World

OTTO JOHN
. . . a life of excitement and intrigue

Here was a caller whose visit had been carefully arranged. Dr. John's duty was to find and arrest all such agents, to prevent subversion of the West German Government. Yet all he did was to turn down the bid, for the time being. He made a written note of it, for his files. And he kept this mysterious incident secret from other members of the Government.

Dr. John, it was plain, would deal with anybody—at least, with anybody but Nazis.

The head of West German security thought he saw a huge Nazi revival, infiltration of the Government by old supporters of Hitler. His most spectacular raids brought in whole rings of alleged Nazis, but failed to yield the evidence to convict them in court. At the same time, according to Dr. John's statements after his flight to the East, Dr. John began to think that the U. S. was trying to stir up a war with Russia and drag Germany into it.

Dr. John got the idea, he explained in East Germany, that the way to change all this and to reunite Germany was for him to join the Communists.

Actions of Dr. John appeared very damaging to the West.

At the time Dr. John went east, treaties to rearm Western Germany and bring that country into the North Atlantic Treaty Organization were hanging fire. France was reluctant to approve them. Dr. John's desertion and his public statements about revival of Nazism in Germany stirred up old French fears. The treaties were shelved, delayed, watered down.

Right up to December 2, only 10 days before his return, Dr. John kept writing articles and making speeches denouncing the policies of Chancellor Konrad Adenauer's West German Government, propagandizing Soviet schemes to neutralize German defenses and continuing to assert that he went to the Communists of his own free will.

Yet, on the same day that Dr. John was returning to the West, an investigating committee of the West German Parliament was giving him a clean bill of health for his conduct while in office. His former boss, Interior Minister Gerhard Schroeder, was telling the committee that Dr. John had no intent to commit treason, that he had not betrayed the names of Western agents working in the Soviet zone.

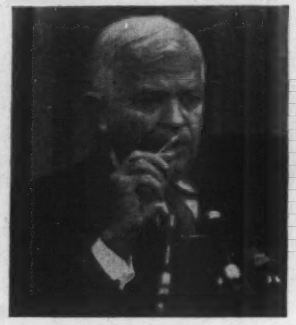
Close secrecy. Details of Dr. John's return—and the real reasons for it—are being closely guarded by the German Federal Criminal Police, who are investigating him. Even the parliamentary committee probing his flight is being kept in the dark.

Some high German officials fear that Dr. John could not have left the Soviet zone without co-operation of Soviet agents, that he now is being fobbed off as a prodigal son to continue his work for the Communists.

What will happen to Otto John? If police and the Government clear him, he will be free to do as he pleases. There is even talk that the Government may give him a big pension for past services.

Yet the mystery grows deeper. Many wonder whom Dr. Otto John really works for.

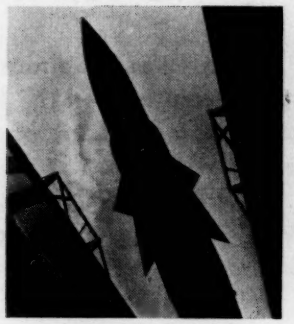
THE MAN ... Charles E. Wilson **THE NEWS** ... More for Arms



MR. WILSON

It's Defense First–Budget Next

In an era of shifting military concepts and growing perils, Mr. Wilson, backed by the President, finds it necessary to increase defense spending.



GUIDED MISSILE

THE ANNUAL TUSSLE over the military budget is ending this time in a triumph for Charles E. Wilson, the Secretary of Defense. Mr. Wilson, his own persuasive powers reinforced by a toughening Russian attitude, emerges with these things:

- Perhaps as much as 1 billion dollars more to be spent on the fighting services in the fiscal year beginning next July than in the present year.
- The additional funds to be devoted largely to increasing this country's ability to strike back quickly and heavily, if it should be attacked.
- More money, meanwhile, to go into strengthening American continental defenses—with electronic and radar equipment, early-warning systems and interceptors.

As these things affect the individual services:

- The Air Force is allotted an additional 700 million dollars, mostly for big, fast intercontinental bombers, supersonic fighting planes and the development of long-range guided missiles.
- The Navy is to have a 200-million-dollar increase to be spread across the board in ships, planes, missiles and improved installations.
- The Army, its manpower declining, nevertheless is down for an extra 100 millions. This may not all be used, but, in any event, a little more is to be spent on missile development than in the past.

In all, the military budget for 1957 adds up to at least 35.2 billions and may go even higher, where not long ago the talk was of 33 to 34.5 billions. By comparison, expenditures for the present fiscal year, ending June 30, 1956, are to total between 34 and 34.5 billions.

Defense and the budget. Mr. Wilson's accomplishment came as a surprise to many who keep a close watch on such developments. Right now, the emphasis is on economies, cutting Government expenditures, balancing the budget—not increasing outlays. The military budget runs to well over half of the federal budget as a whole.

The whole subject was talked out with President Eisenhower at Gettysburg, and at Camp David in the Maryland mountains. On one side was Treasury Secretary George M. Humphrey, who wants to balance the budget and keep it in balance. On the other was Mr. Wilson, who does not always win these encounters.

This time, however, Mr. Wilson could point to intelligence reports of rapid Russian advances in the development of guided missiles, to the Soviet detonation of a powerful hydrogen bomb, to the blustering of Russian leaders who have been touring the Orient, stirring up discord there.

—Harris & Ewing

SECRETARIES HUMPHREY AND WILSON
This time, defense arguments won

In the end, Mr. Eisenhower was convinced and perhaps Mr. Humphrey was not so hard to persuade as in the past. The decision was that this is no time to be cutting military expenditures. One immediate result was that Mr. Wilson and Secretary Humphrey could go to a meeting of the North Atlantic Treaty Organization in Paris with assurances that American military power was being strengthened, not reduced.

Industrialist's education. After nearly three years in the Pentagon, Secretary Wilson has grown sure of himself, comfortable in his job. He has weathered the storms that followed remarks that many considered politically inept. He enjoys the President's confidence. The two almost never disagree.

It is Mr. Wilson's habit—and this was true when he was president of General Motors—to take one problem at a time, devote hours to it, examine it in its overall implications and in its details as well. His effort is to get what he calls the "flip" and what others might call the "feel" of a situation. When he has that, he is ready for action.

This means, Pentagon associates say, that he does not have time to explore all the important situations that arise. And those who undertake to deal with these are never sure just how much power has been delegated to them by Mr. Wilson. But, they have discovered, it is safe to go ahead on their own. If mistakes are made, they find that they are not reprimanded.

Mr. Wilson's decisions, once made, usually stick. There may be objections from chiefs of staff of the services, or from ranking civilian officials. If so, the Secretary

lets the subject rest, brings it up from a different point of view next day, and, if need be, the day after. The approach may differ, but the objective always is the same.

The Secretary works long hours every day, takes little rest on week ends. He avoids social occasions when he can, but, if he must attend, usually finds himself talking about his Department. After dictating his mail, he carefully reads every letter word by word before signing it.

Mr. Wilson has worked with that same intensity and concentration throughout a career that took him from a machine-shop bench to the top job in General Motors. When appointed, he was hailed as an industrialist accustomed to big operations who now would take over the nation's biggest enterprise, defense—an enterprise essentially linked with industry.

Since then, some of Mr. Wilson's colleagues have been making the point that his General Motors career was a peculiarly good preparation for the Defense Department job in another way. In the automobile business, he had to be alert to changing requirements of the market, ready to shift GM products and methods fundamentally to meet the competitive needs of the times.

Changing needs. As Secretary of Defense, Mr. Wilson has presided over a constantly evolving military program, changing procurement needs, research and development programs that many think are leading to a revolution in military methods. The adaptability learned at GM, Mr. Wilson's friends say, has enabled him to approach defense problems with an open mind and a flexible attitude.

At the end of the Korean war, Mr. Wilson found himself with a large and unusually well-equipped Army. It is being reduced in manpower, but remains well equipped. Army procurement for conventional weapons is to be low for several years. That has allowed greater expenditures on other things for all services, especially on the power to strike back if Russia strikes first.

Before Mr. Wilson took over, the jet-propelled B-52 Stratofortress was on the drafting boards and moving through preliminary stages. Now these powerful bombers, with a range of more than 6,000 miles, are in production and are being assigned to operational units of the Strategic Air Command. The AF, meanwhile, has been equipped with a new fleet of medium bombers.

In Mr. Wilson's time, too, naval aviation has been brought into the concept of "massive retaliation" to a degree that would have been thought impossible a few years ago. At the Pentagon, it is said that Navy bombers never will replace land-based aircraft, never can maintain superiority over a land mass. But, for short periods, in some areas, naval avi-

(Continued on page 42)

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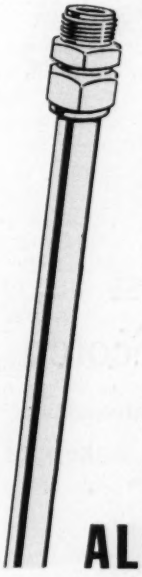

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. . . Rising costs a factor in defense-budget tussle

ation can become the primary striking force.

The Navy and Air Force have been getting along together much more harmoniously than they used to. Mr. Wilson, it is said, has brought about a growing recognition that each complements the other.

Changing weapons. Costly measures to defend the American continent have brought on a continuing argument new to U. S. military thinkers. Prior to this era continental defense never was considered a real problem; war would be kept away from these shores by taking it to the enemy's homeland.

Mr. Wilson's Pentagon planners still hold to the latter view, with few dissenters among them. Pressures from Congress and elsewhere in the Government, however, are forcing the installation of defense systems to detect the approach of enemy planes as early as possible and provide interceptors. So additional funds will be devoted to this purpose next year.

The most profound change since Mr. Wilson moved into the Pentagon, however, is in types of weapons—away from the older, conventional engines of war to the new idea of guided missiles. Over a period of years, much money has gone into research and development—a minimum of 1.2 billion dollars this year. Next year the amount is to be increased by 200 to 300 million.

Much progress has been made in this field. Short-range missiles are ready for use. But the period of push-button warfare is still in the future. The long-range guided missile carrying a hydrogen-bomb warhead and capable of hurtling over the ocean in 20 minutes is still Mr. Wilson's goal.

These basic problems, more or less dictate the extent and the apportionment of military spending. In addition, Mr. Wilson is confronted with a problem of rising prices. Wage increases have been reflected in price increases. Higher prices for steel turn up in greater costs for most military procurement. Nevertheless, a substantial part of the increase in the military budget is to go into strengthening the war potential of the U. S.

Mr. Wilson and Ike. In this era of many changes, Mr. Wilson and the President have worked together closely. The Defense Secretary has been glad to defer to Mr. Eisenhower's military knowledge and experience.

Like Mr. Humphrey, both the President and Secretary Wilson would like to balance the budget. As things are turning out however, it is not to be balanced at the cost of a weaker America facing a peril-ridden world.

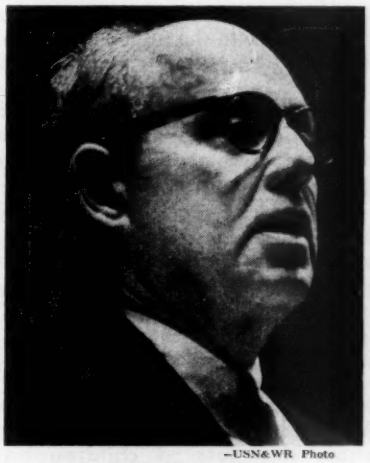
George Meany Warns—

"LIBERALS" SHOULD QUIT BEING SOFT ON COMMUNISM

Following is full text of the portion on "liberals" in an address by president George Meany of the AFL-CIO made before the National Religion and Labor Foundation in New York, Dec. 14, 1955:

Too many in the free world fail to see the real nature of Communism as the mortal foe of everything that we hold dear, of every moral and spiritual value. Too many in the free world are still prisoners of the illusion that Communism is, historically speaking, a progressive system—extreme liberalism temporarily making bad mistakes.

Actually, Communism represents darkest reaction. It is an antisocial system in which there are imbedded some of the worst features of savagery, slavery, fuedalism and life-sapping exploitation manifested in the industrial revolution of early-day capitalism.



—USN&WR Photo

GEORGE MEANY

Too many in the free world seem to have lost their capacity for moral indignation against the most brutal inhumanities when they are perpetrated by Communists. It is painful, but we must face the cruel facts of life.

We of the democratic camp must develop a far more vigorous moral attitude. We must rekindle our capacity to cry out against, to protest against, the Godless dogmas and savage crimes being perpetrated by Moscow.

Such struggles and such protests are not negative actions. They are positive. They are morally and politically constructive. I know of nothing more positive and constructive than a total struggle against the totalitarian cancer in the body politic of modern society.

It is rather disturbing to me that many people in our country who call themselves liberals are stone silent about the Soviet concentration camps. They never find the time to utter a word of condemnation against the Communist-imperialist destruction of the national independence and democratic rights of hundreds of millions of people in Europe and Asia.

It is shocking to see the studied attempts being made by Western diplomacy to tear to shreds the Charter of the United Nations under the guise of the so-called package deal with Moscow and Peiping. Can it be that the free world is so weak in its moral spirit that it does not recognize this deal as appeasement of the worst kind?

I am all for a fight to the finish against racialism in our own midst. Racialism is damnable and detestable in any form. But racialism in reverse—as now propagated in India and Burma by Khrushchev and Bulganin—is just as reprehensible.

And the Communist imprisonment of hundreds of thousands of hostages—so-called war prisoners—10 years after the close of the war, in violation of every human right and international agreement—is morally reprehensible. One would expect the true liberal to cry out in protest against human beings being carted, tagged and shuttled about for weeks in rail yards of Russia, as if they were carloads of coal or bags of potatoes.

Not until we of the free world can give rebirth to a vibrant moral attitude, to a burning indignation against such frightful bestialities, can the freedom-loving people be sufficiently stirred to gather the moral strength for resisting and defeating the totally antimoral dogmas and deeds of Communism at home and abroad. Yes, this means above all a moral struggle against Communism.

Communism is the very opposite of liberalism. Communism is the deadliest enemy of liberalism. Liberals should be the most consistent and energetic fighters against Communism. Liberals must also be on guard against developing a certain type of McCarthyism of their own. They must shun like a plague the role of being anti-anti-Communist.

Only by refusing to be thus entrapped, can liberals shed every vestige of subconscious and conscious regard for Communism as a movement with which they have something in common.

Much more regard must be shown by the democracies for principles—for the principles of human rights and human freedom. We must never sacrifice principles to expediency. This means being rigid in support of our principles.

Moscow is sure it has history's timetable in its pocket. Hitler once thought so, too. We have nothing to fear from peaceful competition. They need our help. We do not need theirs. They have nothing that can help us. What they have can only hurt us. But what we have they want from us in order to help and save them from the follies of Communism and Soviet imperialism.

We must avoid the suicidal self-deception of the popular front and united front.

No country, no people, no movement can stand aloof and be neutral in this struggle. Nehru and Tito are not neutral. They are aides and allies in fact and in effect, if not in diplomatic verbiage.

In conclusion, I cannot emphasize too strongly to you: The conflict between Communism and freedom is the problem of our time. It overshadows all other problems. This conflict mirrors our age, its toils, its tensions, its troubles and its tasks. On the outcome of this conflict depends the future of all mankind. I pray that, on the threshold of the atomic age, we—all of the free world—can muster the moral courage and total strength to preserve the peace and promote the freedom of the men and women of every continent, color and creed.

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We've Been Asked:

DOES 1 "SHOT" STOP POLIO?

- **Many of the 9 million children who have received first "shots" of antipolio vaccine have not come back for second inoculations.**
- **Some parents want to know: How important are the second and third shots? And what do public-health officials advise?**

What is behind all the talk about changing the polio inoculations to one "shot" instead of three?

That was suggested as a means of spreading the supply of Salk vaccine, making it available to more children.

Is this going to be done?

No. A group of polio experts, meeting in Washington, decided unanimously that inoculations should not be cut to one dose. The program will go on as originally planned, with the full course of three shots.

Does this mean that children who already have received one shot are not protected at all against polio?

It does not. The U. S. Surgeon General, Dr. Leonard A. Scheele, says one injection does produce a "marked degree of immunity." But he feels that there is not enough evidence on how long immunity lasts to justify dropping the three-shot program. He thinks there should be no change in the program.

Even though it is considered important to get three shots, figures show that lots of children have stopped after one injection. Why is that?

One reason is that, with the end of the 1955 polio "season," fear of the disease is far from the minds of many parents. Also some are inclined to wait for new developments in vaccines. There was a lag in the inoculation program during the summer months when schools were closed, and this did not pick up till November. Then, too, some parents just weren't entirely sold on the vaccine. Others merely delayed in applying for second shots.

Up to this time, how many have come back for second shots?

The National Foundation for Infantile Paralysis, which started a program of providing free shots for younger school children last spring, figures that about 7 million, mostly in first and second grades, received the first doses. Of these, the Foundation estimates, about 77 per cent have gotten second shots. That means that nearly one out of four has not received a second injection.

The U. S. Public Health Service figures that all told—under the National Foundation and public and private programs—about 9 million children have received first shots; it has no figures on second doses.

Are any free shots still available?

Yes, in many places. The National Foundation is winding up its program of free shots. For a limited number, Congress has provided a federal-aid program for free vaccine. Individual States decide how vaccine under the federal procedure is distributed. All but two States—Massachusetts and Idaho—are taking part in the federal program. Some States also have their own programs of free vaccine.

The program of federal aid to States for polio vaccine will end on February 15, unless extended by Congress.

What about third shots?

They will be due for many children sometime in 1956—usually seven months after their second doses. It is recommended that the second shot follow the first within from two to six weeks, though it sometimes is longer.

Health authorities place great importance on the third shot, known as a "booster." With the National Foundation ending its program of free shots, those who received its first and second doses will have to obtain their third inoculations under public or private programs or from private physicians.

With polio now at a low point, is this considered a good time to get shots?

Yes. Winter is considered the best time for polio inoculations, though shots can be given any time of the year.

Health authorities expect an increase in availability of Salk vaccine after the first of the year. Up to now the Public Health Service has approved 28.5 million shots for use. By the middle of 1956, it is hoped, there will be enough to give at least two shots to all children under the age of 14, with some available for older ones.

Worldgram®

FROM THE CAPITALS OF THE WORLD

NEW YORK....TOKYO....ROME....NEW DELHI....PARIS....

>> Coming next, in view of latest logrolling in the United Nations.....

Communist China is a good bet for admission to U.N. by 1957.

A simple arrangement, which may look like a deal, can make it possible.

What is likely to happen is this: Soviet Russia will refrain from using veto on Japan only if U.S. lets Communist China and Outer Mongolia into U.N.

Once this happens, Communist China will replace Nationalist China in U.N. General Assembly. Two Chinas will then have a voice in U.N. Mao Tse-tung's Communists will be speaking for China in the big General Assembly, using that sounding board for Communist propaganda. Chiang Kai-shek's Nationalists will also be representing China--and able to use its veto--in the more exclusive Security Council. In time, however, Nationalist China is likely to be forced out of its Security Council seat, too.

Voice of China in the U.N. then will be that of Communist Peiping alone.

Trend toward admission of Communist China to U.N., actually, has been in operation for some time under the surface. Now it's out in the open.

>> In the "package deal" which let 16 nations into the U.N. but kept Japan out, despite U.S. efforts, the important point to keep in mind is this:

It's Soviet Russia which kept Japan out, and it's Soviet Russia which has the power to continue to keep Japan out. Soviet veto can be used again.

U.S. can't force a new member into U.N. if Russia opposes it.

>> Now, the way things are left.....

Japan, U.S. ally, is locked outside the U.N., forced into the company of Communist China. Pressure on Japan to cuddle up to Red China is considerable as it is. From now on, this pressure is almost certain to grow.

Soviet-Japanese peace treaty is still hanging fire. Japan would like to "normalize" its relations with Russia. But Moscow holds the whip hand.

Trade with Soviet bloc will interest Japan increasingly as other markets, including U.S., erect higher barriers against Japanese textiles. Rights to fish in waters controlled by Russia interest Japan. Return of Japanese held prisoner in Russia, return of islands held by Russia are still hoped for in Tokyo.

>> Other side of this coin is pressure on Japan--and on U.S.--to let Moscow have its way. Already, in contrast to U.S. blasts against the Soviet veto.....

In Tokyo, Premier Hatoyama has declined to join U.S. in denouncing Moscow. Instead, says Hatoyama politely: "I do not believe that Soviet Russia exercised the veto power with the object of keeping Japan from joining the U.N. I do not, therefore, give up my hope for Japan to be admitted in the near future."

(over)

Japan's hopes strengthen Russia's position and put U.S. on the spot.

>> In Rome, on the other hand.....Italians seem agreed that Italy's admission to U.N. after eight years of waiting will not solve any of Italy's problems.

There's widespread doubt in Italy, in fact, about value of U.N. at all. "Il Globo," leading business daily, says: "The U.N. is not important; the U.N. is dead even though it pretends to be alive and vital."

>> For a look at the Soviet balance sheet as the year 1955 ends.....

The Russians are not doing so badly.

Middle East is trigger happy, thanks largely to Soviet arms sales to Egypt.

Terrorism in Cyprus is spreading. Communist efforts are getting results. Communists, similarly, are giving Britain a bad time in Singapore and Malaya, helping to keep the French in continuous trouble in North Africa.

India, Burma, Afghanistan are being pressured into closer relations with Moscow. The Khrushchev-Bulganin tour appears to have paid off.

Premier Nehru's neutrality is in question. It seems to favor Russia.

New Communist base for political, propaganda, subversive activity is being opened in Bonn, West German capital, under cover of new Soviet Embassy there.

Soviet trade weapon is coming into play against the West in Middle East, in Far East, in Latin America, even in highly competitive European markets.

Smiling Moscow seems to be calling the tune in more of the world today than ever before, making easy gains that add up to a rather impressive total.

>> On the Western side of the fence, as the foreign ministers at Paris sized up the balance sheet of NATO, North Atlantic Treaty Organization.....

Spending for defense is firming in response to Soviet troublemaking. NATO spending in '56 will stay near present levels. Sharp cut is unlikely now.

NATO air strength is improving. Plane strength is up 10 per cent, over a year ago, to 7,000 combat aircraft, most of them jets.

NATO ground strength, however, is eroding. Belgians are disbanding one of their three active divisions. Draft has been reduced to 18 months. The Dutch are again delaying formation of a second active division. France, a major NATO power, is spread-eagled between Europe and North Africa, where guerrilla warfare is tying down half the French Army. West German Army is getting under way at a snail's pace. It may be 1958 before NATO gets any German reinforcements.

>> Immediate problem for NATO is to build a radar net clear across Europe, from north to south, that will provide early warning of a surprise attack.

New Soviet bombers can easily evade NATO's present radar.

Improved radar nets, therefore, are a first order of business for NATO. So, Allies at Paris have agreed to set up four regional nets as soon as possible, along with a 42-million-dollar communications system. This system will use new American radio transmitters, which bounce radio waves off the ionosphere.

Some NATO handicaps will continue, however. Unified air defense is still remote. Modernization for nuclear warfare is prevented by budget limitations.

NATO, on balance, is neither as strong as U.S. wants it to be nor as weak as Soviet Russia wishes it were. NATO's big handicap is that its military power can't immobilize Soviet diplomats, can't keep Russia from subversive methods.

This is why Moscow, despite NATO, is making its gains today.

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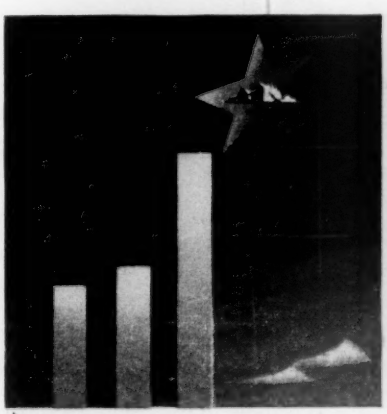
FOR THE BUSINESS-MINDED: SOME PROOF OF RAYONIER'S GROWTH



Rayonier has created such intense demand for its products that its production capacity has grown by more than 660,000,000 lbs. in the last five years, more than doubled in the last ten to a new capacity of 1,470,000,000 lbs. a year.

To meet new high production schedules, Rayonier has increased manufacturing facilities by *82%* since 1948; will add another 100,000 ton plant to its growing network by 1957; expand its Canadian mills' output some 100,000,000 lbs.

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Output of factories, mines, mills is continuing its climb.

Industrial production for November is reported at 144 per cent of 1947-49 average by the Federal Reserve Board. That's a one-point gain from October.

Activity is at a high pace for December, too. Steel, autos show that.

Gains in output of a point or two each month have been usual through 1955. Total production now is at an all-time high.

It's doubtful that this steady climb in production will continue. Steel mills are close to capacity. Auto production probably will dip before long. Some other industries, too, are moving close to their capacity ceiling.

Production gains from a year ago are somewhat startling.

Primary metals--steel, copper, aluminum--are up 27.1 per cent.

Transportation equipment--autos, planes, freight cars--show a gain from a year ago of 20 per cent.

Machinery of the nonelectrical type marks a gain of 19.7 per cent.

Electrical machinery is up only 2 per cent, but one major producer in this field has been plagued by a prolonged strike.

Gains of 10 per cent or better are chalked up for fabricated-metal goods, cement, glass and kindred products, the furniture industry.

Lumber output has a gain of 5.6 per cent over a year ago.

Altogether, these manufacturers of durable goods are operating at a high for peacetime and only 5 per cent below the wartime peak. Gain from July, 1954, low point for that year, has been 20 per cent.

Manufacturers of soft goods, too, are sharing in the upsurge.

Rubber industry is turning out 20 per cent more than a year earlier.

Paper and chemical industries have gains of 10 to 15 per cent.

Textile mills show a gain of close to 10 per cent.

Other advances in the 10 per cent range are noted for clothing, leather goods, printing, oil refining. The food, beverage and tobacco industries have gains of less than 5 per cent over a year ago.

Soft-goods producers, on the whole, are turning out goods at a record rate. Prospects are that their production will continue to be high. Demand for non-durable goods is expected to be higher in 1956 than in 1955.

Retail sales, in total, showed a slight decline from October to November, after seasonal adjustment. October also showed a dip, season considered.

Total sales, adjusted for seasonal shifts, hit a record at 15.8 billion dollars in September, slipped to 15.7 billion in October and to 15.6 billion in November. But they ran 8 per cent above a year ago.

(over)

Chief reason for the dip was that auto sales lagged because of the model change-over in these months. Auto sales still lag behind production.

Stores that concentrate on selling soft goods have been running at about 10 billion dollars a month, seasonally adjusted, for three months. This group is expected to turn in a record total for December.

Outlook for farmers continues to be rather discouraging.

Total net income to be realized by farmers this year is estimated at 10.6 billion dollars by Secretary Benson's Agriculture Department. That's 10 per cent below the 11.8 billion realized in 1954.

Prospects for 1956 are no better. The Government's farm experts see some further decline in net income of farm operators for the year ahead.

Farm earnings are expected to be down next year because of acreage cuts and slightly lower average prices. Costs will remain high, even though lower feed costs are anticipated for livestock producers, dairymen.

The Department notes that farm population has declined since 1951, so that income for each person on farms has not dropped as much, in proportion. But it also is noted that farm population has not declined in 1955. The conclusion: Income per person on farms is "undoubtedly lower" in 1955 than in 1954.

Drops in farm income are being reflected in bank deposits.

Federal Reserve Bank of Kansas City, after sampling 105 "country banks" whose customers primarily are farmers, comes up with these figures:

Demand deposits of individuals and businesses in these banks decreased by 8.1 per cent for the year ended October 5.

Savings deposits increased by a moderate 4 per cent.

Total deposits for the year registered a dip of 6.4 per cent.

Deposit drain was offset by cuts in guaranteed loans to farmers, but other loans expanded. These banks reduced their own cash balances with other banks. Result is that they are in a less liquid position than they were.

Note that deposits in farm areas declined, while in other areas the volume of deposits has been showing gains.

It's against this background that Mr. Benson is fashioning a new program. Highlights of the farm program now being considered include these proposals:

A "soil bank," under which farmers will be paid for turning land into grass and wood lots. Estimated cost is put at 400 million dollars--rather moderate.

More credit for farmers on family-sized farms.

Stepped-up surplus disposal, both at home and abroad.

More money for research, to develop new markets, new uses for crops.

Commodity programs aimed at stopping further accumulation of surpluses.

None of these proposals seems to promise any quick easing of the plight of the country's farm population.

Next tariff fight in Congress is to center in import quotas rather than tariff rates. Textile industry already is set to lead these forces.

Support for quotas is to be expected from U.S. manufacturers of bicycles, clocks, watches, pottery, other groups objecting to competition from abroad.

Let's Keep Christ in Christmas

Christmas . . . and
The lights will burn brightly, and the
bells will ring out;
The streets, and the stores and shops will be filled;
The gifts will be stacked high under the tree,
and the festive board heavy under
the Christmas feast;
There will be merriment in homes throughout
the land, and the laughter of
children to infect us all;
The doors of our homes will be open, and friends will
visit and clasp hands.
But more than any of these,
Let each heart become a chapel,
Remembering that on this Day one thousand, nine
hundred and fifty-five years ago,
God gave to the world the greatest Gift of all,
His only begotten Son,
Our Lord and Saviour Jesus Christ.
Yes, more than anything else,
Let us remember this, and keep Christ in Christmas.

Norfolk and Western Railway

Interview with MURRAY SHIELDS
Noted Economist

NO MORE DEPRESSIONS?

Are there signs of trouble in today's boom? Could it end in another crash such as that of 1929?

Or does a period of great economic growth still lie ahead?

What is the outlook for the future? And what should U. S. do to protect that future?

Murray Shields, noted economist and adviser to leading American industries, gives his answers to these and other questions in the following interview with the Board of Editors of *U. S. News & World Report*.

What Mr. Shields sees is this:

• Some danger spots. But no chance of another 1929. And a great opportunity ahead.

What U. S. should do, he says, is:

• Act now, in time of prosperity, to safeguard against a future depression.

Q Are there going to be any more depressions, Mr. Shields?

A Well, it's not fashionable today to take any view other than that we have arrived at the utopia of depression-proof prosperity, but my own view is that we still face the problem and that it's going to take some extremely skillful management to prevent us from having depressions from time to time.

Q Do you think they're preventable?

A I believe that depressions are man-made phenomena and that they *could*, therefore, be prevented. It seems to me that the intensive research during the past 15 years on the subject by such organizations as the National Bureau of Economic Research and the National Industrial Conference Board has made it abundantly clear that we *could* avoid another major depression.

But to do so we shall have to do three things: One of them is to make money pretty tight when prosperity threatens to degenerate into an inflationary boom, which would set the stage so that we could make money stimulatively easy whenever a business decline threatens to spiral into deflation.

Another is that we ought to keep taxes pretty high during periods of prosperity, so that we would deliberately develop budgetary surpluses. This would of course permit us to do the reverse when business turned bad.

The third one is that we should, during periods of prosperity, develop a shelf of public works available for use when private business declines.

Q If depressions are man-made, would you say that they are the result of bad judgment, faulty judgment on the part of our monetary authorities—or what?

A In the present situation there are three kinds of risk: psychological, political and monetary. Individually and collectively, the human being seems to run from one emotional extreme to the other in appraising the outlook. He tends to become overenthusiastic and overconfident in good times, which puts him in a frame of mind so that when business turns down he becomes far too pessimistic.

He overspends, overborrows and overinvests when times are easy, and then underspends, underborrows and underinvests when times are hard.

The political danger is that political expediency will, from time to time, prevent us from adopting the proper contracyclical over-all economic policy, and, therefore, leave us exposed to depression.

The monetary danger has its origin in the fact that the monetary controls are extremely sensitive instruments and involve decisions which may be beyond the capacity of men always to make correctly, in which event we will, by misjudgment or through mistakes in timing, inflate too much at one time and deflate too much at another.

Q Do we know, when these depressions are over, what really caused them?

A My impression is that, in general, people do not. Capable students who were around at the time still disagree violently as to what really sparked the 1937-38 recession, which was pretty deep. It didn't last long but it was painful.

Q What about the 1929-33 depression—is it pretty generally agreed as to what caused that one?

A My impression is that people aren't thinking about it any more, since they have ruled out the possibility that we'll ever have that kind of episode again. Some like to assume that it happened because of excesses during the preceding period—excesses within the business structure itself.

Some students attribute it to the fact that we had an income pattern that was severely distorted. Others believe that we oversaved during the '20s, which choked off the flow of incomes into the markets. My own view is that we permitted credit to be overused to "soup up" one of the biggest speculative booms that man has ever experienced.

Q In security prices?

A Primarily in security prices. At the same time, we became so sanguine about the outlook that we permitted hidden financial weaknesses to develop. This meant that, when the stock-

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"There Is No Chance of Another 1929" . . . "Recessions Are Probably Inevitable" . . . Danger in Mounting Debt

Murray Shields is senior partner of MacKay-Shields Associates, a firm of economic consultants serving a number of important corporations. He is a trustee of the National Industrial Conference Board and a director of the National Bureau of Economic Research.

During World War II, Mr. Shields was a consulting expert in the office of the Secretary of the Treasury. In 1949, he was treasurer of the Conference of Business Economists, and now is president of Management Economics, Inc. For many years he was a vice president and economist of the Bank of the Manhattan Company.

–USN&WR Photo

market boom finally collapsed, we uncovered sensitive points of financial weakness which started a vicious spiral of deflation.

Another factor was that overconfidence led individuals and businesses to overborrow and caused financial institutions to reduce their liquidity. Then, when the tide turned, borrowers could not perform on their obligations, and banks and other financial institutions could not provide liquid funds when they were needed.

This drove the people to a frenzied scramble for cash, it drove capital into hiding and it caused a flight of funds abroad. Such a liquidity crisis is a horrifying thing, for it converts an orderly decline into a financial panic.

Q Are we heading for the same thing again now?

A No. There is not a chance of another 1929. My impression is that no depression we have ever had has ever been like any of its predecessors. Each one is different. That's why we get our guard down. We're always ready to fight the last economic war—as is sometimes the case with generals, with respect to military affairs.

We have it fixed now so that we cannot have another 1929. But that does not mean, necessarily, that we cannot have another period of depressed business with some financial troubles.

Q Going beyond 1937, what are the other recessions that we've had since then?

A We've had a couple of puny little recessions since the war. The first one was sparked by an overburden of inventory.

Q What year was that?

A 1948 to '49. But it didn't last very long because we had huge backlogs of demand built up during the war which, given a little time, stopped the recession and then pushed business on to still another new high. The second recession was a combination of inventory excess and retrenchment after the Korean boom.

Q That was 1953-54, was it not?

A Yes, it was. That one did not last very long, either, because inventory recessions are never very long. My impression is that, if inventories are built up, nine months or thereabouts of contracted activity will set the stage for the recovery.

Also, the recession was short and mild because European demand for many commodities was booming, the Administration promptly resorted to some highly stimulative actions and the stock market—which was far too low—started to boom the moment it became clear that there was to be no spiral of deflation.

Q In what you have said before about preventing depressions, you do not rule out the possibility of occasional recessions in the future—

A I think recessions are probably inevitable. We let our inventories get too high once in a while. Then orders come tumbling down and a period of retrenchment is essential.

Quite a lot of people talk about overcapacity as an important factor in depressions and recessions. My impression, however, is that, if we get our capacity built up, it becomes rather obvious before long, for competition increases and prices weaken. But the recessions we get from that alone also tend to be fairly brief, because in a growing economy we should be able to catch up with any temporary excess in capacity in a year or two.

Those are the factors responsible for recessions. Depressions are primarily financial in origin.

Q It used to be said that a long period of declining commodity prices and long farm crises, such as we had in the '20s, was a basic cause of depression. Does that no longer have any validity?

A Well, it certainly had something to do with the severity of the collapse of the '30s, because with mortgage debt on the farms as high as it was—

Q You are speaking of 1929-33 now?

A Yes. Then, when we had a recession, for whatever cause, the farmer got into financial trouble. We also had some financial deflation originating in the fact that farm mortgages in

(Continued on next page)

. . . Present situation is "not comparable to that of '20s and '30s"

many cases turned sour, to the embarrassment of the financial institutions which owned such mortgages.

Since you raised the question, I cannot believe that the present situation is comparable to that of the late '20s and early '30s. Today the farmers own a tremendous amount of liquid assets and their mortgage debt is very low. I've heard it said that 50 per cent of the farms in the country are not mortgaged at all today.

Q We have lagging agricultural-commodity prices, don't we?

A Yes, but most of us were fearful in the late '20s that, with population leveling out, the agricultural-surplus problem was a permanent one.

Today we have an agricultural problem, but without the heavy overlay of mortgages. And, with population growing here and in the entire Western world as rapidly as it is and with most Western nations in the midst of a rapid build-up in the middle-income, high-consumption groups, it seems to me that this particular agricultural crisis is bound to be temporary.

I think we can look forward to a period of no more than a few years, at the most, before demand will grow up to our present agricultural capacity.

Q Isn't production on the farms growing more rapidly than population?

A Yes, as far as this country alone is concerned. Technology is having an effect on our farming, but it is partially offset by the trend of farmers to leave the farms for jobs in industry.

But, with demand growing as it is in the world as a whole, this is probably a temporary problem rather than one as permanent as we thought the farm problem of the '20s to be.

Q In this period the banks are not failing, are they, the way they were in that period?

A There are virtually no bank failures, of course, and there are not likely to be.

WHY BANKS ARE STRONGER—

Q Is our banking structure much stronger than it was in the '20s or even in the '30s?

A Of course it is—much stronger. And it's not stronger simply, in my opinion, only because we have Federal Deposit Insurance.

It's stronger because banks are better managed—more professionally managed—than ever before; because the bank investment position is relatively short and confined to highest-grade obligations; because the standards of loaning practice have been improved very materially over the years, and because the banks have held their dividends low for a good many years so as to plow tremendous amounts of retained earnings into capital and surplus.

Q Then where could the weaknesses be in the financial field?

A Well, I don't think there are any weaknesses in the commercial or savings-bank field.

Q Are there in the mortgage field?

A I'm inclined to think that probably there are some. It seems to me that people may be assuming, because we have Federal Housing Administration insurance, that all mortgages are insured and therefore impregnable. But the fact of the matter is that the percentage of total mortgages outstanding insured by that organization is rather small. The insured mortgages are owned, for the most part, only by the insurance companies and the savings banks.

The savings banks are in a very strong position. They have developed, out of the experience of the past, sound and strong standards of administration. They hold colossal amounts of Government securities. Most of the mortgages held by the mutual savings banks are FHA-insured mortgages. They live under an elaborate network of controls and legislative restrictions on their activities.

Q Can the same be said of all other financial institutions?

A It certainly can be said of our insurance companies. But there are several areas where the framework of regulation is loose, where neither custom nor law requires that conservative policies be adhered to and where it is not possible to be certain that either the liquidity or capital reserves so necessary in periods of economic adversity are actually present.

I refer to some of the smaller, newer finance companies which take the fringe risks and operate on shoestrings of capital, and I refer also to some of the federal savings and loan associations.

With respect to the latter, it is encouraging that a move is under way to apply to them some of the standards to which savings and commercial banks must adhere. It certainly should be done, as the federal savings and loan associations now have more "deposits" than do the mutual savings banks, and, in fact, their deposits now amount to approximately one fifth of the demand and time deposits of all of our commercial banks.

"SAVINGS AND LOAN" GROWTH—

Q Do the savings and loan associations really have deposits? Are they not called "share accounts"?

A That is what they are known as officially, but they are considered by everyone involved to be equivalent to deposits in the banks. The important thing, however, is that these institutions are not subject to anything like as stringent capital, reserve or other restrictions as are the savings and commercial banks.

This was not a pressing problem as long as the savings and loan associations were very small, but they have come to be a vital part of our financial mechanism and they are growing at a fabulous rate.

Now, let me emphasize that here we have a situation that is not at all dangerous today. It could become serious, however, in case business took a harder and longer slide down than most of us expect in the near-term future. And I mention it only because it is, I think, an area where we ought to have some careful thought now as to how we can assure that this new set of indispensable institutions will be no less strong than our savings and commercial banks.

Q Aren't there institutions in those fields on which the Government guarantees the deposits?

A They have a system of insurance by a corporation which has certain federal sponsorship and has access to a limited line of credit from the U. S. Treasury. That line was fixed many years ago when the total of "deposit" liabilities of the savings and loan associations was only a fraction of what it is today. Whether or not it should be extended is just one of the many questions to which we should address ourselves.

I'm not at all afraid of this situation at the moment, but it seems to me that when times are very good we ought to take seriously the old adage: "In time of prosperity, prepare for adversity." This is a time of boom, and I think it is a time when

. . . "Insurance companies are in an exceedingly strong position"

everybody ought to be looking for the weaknesses so that we could correct them long before they get really troublesome.

Q Would you say that the same situation prevails in the insurance companies?

A No, the insurance companies are in an exceedingly strong position. They have little in the way of demand liabilities; they hold huge amounts of U. S. Government and FHA-insured mortgages.

RISKS IN GOLD—

Q Are there other areas of financial weaknesses to which we ought to give consideration?

A Another possible source of financial weakness is our gold position. And here we must remember that our monetary structure is still hooked up, somewhat informally, with gold. The Federal Reserve is required by law to maintain gold-certificate reserves equal to a minimum of 25 per cent of its own deposit and note liabilities. People give it hardly a thought any more because, after all, we have 21 billion dollars, or thereabout, in our monetary gold stock, which is of course quite large.

The plain fact of the matter, however, is that, while our gold stock is now only about a billion dollars less than what it was in 1949, the foreign claims on our gold have risen spectacularly from 6 billion dollars to 12 billion dollars today.

Q In what form are those claims?

A This particular statistic about foreign claims involves holdings of deposits by foreigners in our banks and holdings by foreigners of Government securities with the maturity of one year and less.

We know, of course, that foreigners hold vast amounts of additional Government securities maturing in from one to five years, as well as equities and corporate bonds. But our net gold stock today—after allowing for short-term liabilities to foreigners—is about 10 billion dollars, whereas in 1949 it was close to 20 billions. That isn't so bad, but when the net gold stock is related to our gross national product, it is clear that it represented in 1949 about 8 per cent of our gross product, whereas today it represents roughly 2.6 per cent of a much higher gross national product.

Q But don't we have some claims against other countries?

A We do, but they do not amount to very much. Most of our claims on foreigners are long-term, while their claims on us are short-term.

Q What if we just lowered reserve requirements?

A We could certainly do that, or the Federal Reserve could buy United States Government securities to offset the gold loss. I am confident that we could manipulate ourselves out of any difficulty which developed because of foreign withdrawals. But the act of doing so at a time when business was declining might have some adverse psychological effects.

Therefore, again I must emphasize that this is the sort of problem we ought to be analyzing exhaustively now, so that we could do something about any potential dangers before, rather than after, we get into trouble.

If, for example, there was the slightest danger that a gold outflow could, in times of bad business and deteriorating confidence, threaten to bring the Federal Reserve ratio—the ratio of gold-certificate holdings to total deposit and note liabilities—anywhere close to the present legal minimum of 25 per cent, we should now, while confidence is high, either reduce the legal minimum or eliminate it altogether.

Today the situation is comfortable. The ratio was recently above 45 per cent. But if we deduct from Federal Reserve holdings of gold the foreign claims—short-term only—on our gold, the ratio works out at less than the legal minimum of 25 per cent.

I don't want to exaggerate this danger, but I feel that some observers are neglecting it altogether today. Gold outflow does have deflationary impact. It represents a loss of the money supply, because we lose deposits in the process, and the loss is generally concentrated in the major financial centers.

Q So we're somewhat at the mercy of other countries?

A That's right. The Federal Reserve would of course find some means of offsetting a gold loss.

Q Maybe the solution is to raise the price of gold—

A Well, my guess is that sometime in the course of human events we will come to that, in order to make our monetary gold stocks more adequate in relation to the need for them.

I don't think anyone who has studied the matter doubts that, if we ever got into another serious depression, we would increase the dollar price of gold. And therefore it might well be advisable for us to do it beforehand, rather than to wait until such action would have an adverse psychological effect.

Mark you, I'm not advocating a rise in the gold price; what I want to emphasize is that we should be studying the problem now.

DEBTS U. S. STANDS BACK OF—

Q Are there still other financial weaknesses—actual or potential—to which we should be giving consideration today?

A Yes, there are. First, there are the contingent liabilities of our Federal Government. Some say the total of federal insurance and guarantees is close to the present total of the debt now outstanding. It is difficult to measure, but no one doubts that the total is colossal—and rising. The use of this device does strengthen our private credit structure against financial dislocation.

But there are two dangers: The first one is that the use of Government guarantees will bring a deterioration in the basic soundness of the credit guaranteed; the second is that lavish use of the guarantees and insurance will stretch the total of the Government's contingent liabilities to a point beyond its ability to perform on without resorting to inflation.

It is hard to determine just how far the Government can and should go in guaranteeing private credit without impinging on its own credit position. But, in times when business is good, is it not obvious that the Government should reduce rather than increase the range of its contingent liabilities, carefully tailor its liabilities to its financial capacity and be sure just where the money would come from if it had to perform on its contingent liabilities in a period of bad business?

The second weakness is the problem of debt management. Prosperity is the time not only to reduce the total of the debt but to see that it is organized and distributed properly and soundly.

It would, in my personal opinion, be far better if less of our debt were in very short-term obligations, so that the ability of our Government to raise funds in the short-term market would be unquestioned, no matter what the economic circumstances.

May I make it clear that it is not easy to determine what the appropriate policies are in any of these areas, but the thing that worries me is that a few years ago economists and

(Continued on next page)

. . . "Prosperity may lull us into a false sense of security"

financial experts were discussing the matter actively and aggressively. Now they are not. Here again prosperity may be lulling us into what might be a false sense of security.

Q You have mentioned liquidity several times. What actually are the dangers here?

A It is a great strength in our economy. It is a source of comfort to believe that most of the assets we own can be converted into cash at a moment's notice. The total of liquid assets is very formidable indeed—so large, in fact, that many observers list our liquidity as one of the chief reasons for assurance that we can never again have a serious depression.

They may be justified in doing so. But I submit that, when times are good, we should carefully analyze the whole question of how such liquid assets can in actual practice during less prosperous times be converted into cash. We have had some difficulties in this respect in every major depression we have ever experienced.

What we thought to be liquid assets just turned out to be not so liquid, which was not exactly reassuring. And the attempt to make them liquid gave us a fit of deflation. Is it not prudent now to restudy this whole matter?

The total of liquid assets is so large that we must be positive that the credit on which they are based will never be put to question. We must also be sure that there is—in a pinch—no legal or regulatory barrier to the expansion of commercial-bank or Federal Reserve credit and no fiscal limitation on the issuance of currency by the Federal Government. In the area of liquidity an ounce of precaution is worth a pound of cure.

NEW INVESTING GROUPS—

One other matter deserves mention: We have several groups of new financial organizations which are growing at a fabulous rate, such as the pension funds, the investment trusts and the philanthropic foundations, none of which is subject to very much regulation or supervision with respect to its policies.

I am convinced that today, while our new investment institutions are still in early stages of their development, is the time for careful study and intensive analysis of the whole problem by our most competent authorities, perhaps within the framework of a congressional inquiry.

I envisage of course a "friendly" study, not a punitive one. Nevertheless, such an investigation—"inquiry," of course, is a much better word—would enable us better to avoid the pitfalls and to reap the advantages inherent in such institutions, to appreciate now the magnitude of investment problems involved, to learn more concerning the impact of their growth on all segments of the economy, to establish actuarial and investment standards and other policies to guide their operation into really constructive and sound channels, and to be sure that such institutions are so managed that they will make a maximum contribution to prosperity without involving the risk of intensifying our recessions.

We must avoid our all-too-usual cycle of response to desirable financial innovation: First, we build a new financial organization to meet a demonstrated need. Then we permit it to be unsoundly organized, mismanaged or abused. Finally, we subject it to far more severe regulation than would have been necessary in the first place, and the reason we do so is that we permit such organizations to weaken the financial structure so that the first time we experience a recession it is converted by financial disorders into a deep depression.

Q Mr. Shields, you have said repeatedly that our financial situation is very strong today, yet you seem to have some fears about the future. Why?

A The basic cause of my apprehension is that acceptance of the idea that we are never going to have another depression may lead us to permit the basic strengths now present in our financial situation to be impaired.

This would make our financial institutions vulnerable to recession, and that might again—heaven forbid!—convert an orderly recession into a spiral of depression. Now, when times are good, we should concern ourselves with how our financial organizations would actually function in time of economic stress, how they would perform on their obligations, how the necessary liquidity could be provided, and how they could absorb losses without impairing the exercise of their proper functions.

And this goes for the Federal Government and for the Federal Reserve as well. I feel sure that, by studying carefully now just how we can strengthen our financial institutions against adversity, we will provide ourselves with additional protection against such adversity.

WARDING OFF DEPRESSIONS—

Q But has not the new policy of Government intervention to prevent depression actually played an important role in staving off serious depressions?

A It has played a very large role. It will play an even greater role in the future, but there is the danger that it will encourage people to assume that the risk of depression is gone forever.

Q Isn't that all to the good, on the whole?

A It is important. But it does have some side effects. If it weakens our concern about the whole problem and tempts us to expand our debt and to do other things which weaken our financial defense against recession, that would be on the wrong side of the ledger.

Anyhow, I'm not so sure that, because we have what people erroneously call a "full employment" law on the books, we have any real insurance against depression.

That statute is by title an *employment* act. It is worded in a most general way. It expresses a broad intention on the part of Government to do things that all governments have always wanted to do anyhow. And it contains no detail whatever as to what precisely the Government is supposed to do to prevent depression.

Q Is there any implementing machinery in it at all?

A There is very little. There is some in connection with the Council of Economic Advisers and the Joint Economic Committee of Congress, both of which were authorized in the same act.

Q Aren't there other powers? For example, you've got the power of appropriation to subsidize industries; you've got the power of appropriation to build public works; you've got monetary power, and you've got lending power—all of which constitute several instruments that have been amplified, let us say, since the 1929-33 depression. Now, I wonder to what extent they have provided underpinnings for future upheavals—

A Well, they do provide some automatic stimulants for application in case business turns downward. But if we use our stimulants when business is good to "soup up" a boom, then they may not be available to us later on when we really need them.

. . . After setbacks "we permitted new weaknesses to develop"

To avoid depressions, "We shall have to do three things—"

In boom (1) "Make money tight . . . (2) keep taxes high—"

—USN&WR Photos

And (3) plan "public works for use when business declines"

I think that it is probably a mistake to overemphasize the importance of the automatic stimulants. After all, in the main, we did have access to such stimulants in 1929 and in the early '30s. We could and did run substantial deficits. The Federal Reserve could and did make money easy. The Government built up perfectly tremendous lending organizations.

Q That came after the depression—

A After it set in. But these were among the mechanisms brought into play in an attempt to stem the decline.

They did not do so. Now we have put on the statute books a measure which, in the minds of the public, legislates depressions out of existence. Well, we should remember that, almost every time we have had a serious depression in the past, we have promptly modified the banking law and then lived for a while in a dream world of assurance that nothing disastrous could ever happen again. But we permitted new weaknesses to develop and got into trouble all over again.

Our situation, I submit, may not be quite as "new" as we wish to think it is. At any rate, we ought to be pretty sure that the devices we rely on will actually be available and will do the job that we expect them to. I hope that we will have sense enough to restrain any tendency toward booms, so that we will not have to rely too much on the economic stabilizers.

WILL GOVERNMENT STEP IN?—

Q On the point of Government intervention, isn't it an accepted belief now that Government will intervene to prevent any large group of the population going through the wringer? And, if that is accepted thinking, is it a good thing?

A Well, of course it's a good thing for Government to use its massive powers for that purpose. Our Government is under more of an imperative to do so today than was the case before. That may be all that the so-called Full-Employment Act really means.

But can we be sure that our Government will, if it first permits a huge boom to develop, really be willing or able to use these devices? For example, people frequently say that "if we get into trouble, we'll just print the money." We've always been able to print money, but the strange thing about that kind of device is that governments hesitate to use it. We use such a dangerous instrument with great reluctance and properly so.

Furthermore, and far more important, if the business tide were down and people were getting more and more pessimistic day by day, the announcement that our Government was going to print money would advertise the recession and probably frighten more people than it would reassure. Some of the measures people talk so confidently about are very dangerous to use, for in actual application they frequently turn out to be deflationary.

Q Is that what happened in the '30s, when business did not recover after the panic was over?

A In the minds of a good many observers, that depression was as long as it turned out to be because of fear that resort would be had to such devices. For a while, it seemed to me that, for every dollar the Government promised to spend in an effort to force recovery, several dollars of private money went into hiding.

But, to get back to my main theme, at a time like this we should be absolutely certain that the devices we plan to use will actually be available and will work if we resort to them.

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. . . "The whole Western world has been on a spending spree"

Q Wasn't the real conflict, though, back there, the question of whether you should allow deflation to take its course—whether the best cure for deflation wasn't to let it run its course?

A That's right, and that's exactly what England is doing today. They're taking a little deflation instead of just continuing to inflate.

Q But it's on a pretty high level, of course?

A That's right. But here we have a situation where a government is not using the stimulants to hold everything up, but deliberately trying to use monetary devices so as to take the bloom off the boom.

Q Is Britain really contracting?

A Well, they've raised the rediscount rate to 4½ per cent, which isn't exactly low, and the Bank of England has "requested" the commercial banks to reduce the total of their loans from June 30 to December 31, which is pretty vigorous in view of the fact that this is the seasonal period of loan expansion.

Q Well, are they doing what we should do here?

A I wouldn't go so far as to say that. We're using some of the same techniques now, but—

Q Chairman Martin of the Federal Reserve Board warned recently of dangers in the credit situation—

A Well, he is determined to prevent another 1929, which on the whole I think is sound, for there is only one way to prevent a depression and that is to prevent the preceding boom.

Q Well, has this been a boom?

A I don't think there's any doubt about it. The whole Western world has been on a spending spree. It has not yet reached a really dangerous level, but the trend is in that direction. In my personal opinion, if the speculative upsurge which began here about 18 months ago had been permitted to continue without any monetary restraints, it would reach a climax by the end of next year, or thereabouts, after which we would have to be prepared for a depression.

AFTER BIG BOOM, A BUST—

Q A real depression?

A As you think back over economic history, here and in other commercially well-developed nations, I doubt if you'll find any exception to the rule that whenever there has been a great speculative boom, be it in commodities, real estate or stocks, there is always a bust.

And, more hopefully, I don't think you will find in the history of this country—or in that of other Western nations—any period when we had a depression which was not preceded by a speculative boom. So the efforts of the Federal Reserve to prevent this period of pretty sound prosperity from degenerating into a "flash in the pan" speculative boom ought to have the support of everybody.

The monetary authorities are applying some restraints, and one cannot be sure at this time that the speculative momentum can be stopped with the restraints in effect.

Furthermore, one cannot be sure that in the coming election year it will be altogether easy to apply additional restraints, if that were what the situation happened to call for.

Q Well, that seems to be exactly what happened in 1929, when the Federal Reserve increased the rediscount rate repeatedly, beginning in late '28 and then early '29, and Wall Street took it as a hostile move, bitterly criticized it and, as I recall it, some of the banks themselves resented it—

A Many bankers believed, in the early stages of that boom that the restraints should be applied before the boom developed dangerously. Their views did not prevail, however, so that the boom really zoomed and we had still another case where the central bank was far too late in applying the brakes.

Another aspect of the current situation which is very encouraging is that under Governor Martin's leadership the Federal Reserve Board has come in much earlier with its restraints than has customarily been the case.

Q And has his leadership been accepted by the banking community?

A I think so. Almost everyone who understands central banking and its proper role agrees that the Federal Reserve has been well advised to ride with a moderately tight hand fairly early in the current boom.

ACTION ON CREDIT "TOO LATE"—

Q And yet they were criticized in 1953 when they made changes in the money rates. Was that too early or too late?

A That was much too late. Almost everyone with experience in the field felt that the Federal Reserve should have stopped that boomlet six months or perhaps a year before they finally decided to take action.

Q They couldn't do that with the election coming on, though?

A Well, that's unfortunate. That's something we had better watch next year.

Q Is there any danger of a psychological flareback, Mr. Shields, if the brakes are applied too suddenly?

A Oh, yes. I referred before to the delicacy of the central-bank mechanism. Central banks deal in high-power dollars which have a multiplier influence on the economy as a whole.

Q Are there other dangers in the situation? What about consumer debt?

A I personally do not think the total of consumer debt is now out of hand. The magnitudes simply don't impress me as being dangerous if allowance is made for the level of incomes and for the people's holdings of liquid assets.

However, if we had a couple years of expansion at the rate of the last year, we could reach a situation where the total would be too large for comfort. My fear about consumer credit is not that the totals are too high but that the quality may have slipped in some areas over the past year.

Q Would general credit restraints work with equal effect on consumer debt and real estate debt, or does consumer debt tend to go on at the same rate or at only slightly less, while the real estate debt gets cut back sharply?

A One trouble with the instruments the Federal Reserve has available for use is that they are all very blunt. They are not selective.

Q Should we go back to some system of selective controls?

A My opinion is that it probably would be a good idea. I believe that it would be proper for the Federal Reserve to have a set of controls available today. They're never easy to use. Restraint in any form is not popular—especially with the people who get restrained.

I hope the situation does not develop so dangerously that we are in desperate need of such controls as these. And the time-honored rule in cases like this is that, if a central bank

prevents a credit-supported boom in the first place, it will not create many gravy trains which will have to be kicked over when the restraints are applied later on. All the more reason for moving early rather than late, and all the more reason for giving the Federal Reserve a pat on the back for the way it has operated in the past few months.

Q Don't the real estate people feel now that they're being discriminated against because general credit policy, they say, affects their loans more than it does any other type?

A I don't know whether it works that way or not, and I doubt if anyone does. If they feel hurt it must be a "little" hurt, rather than a "big" one, because thus far I can't see any evidence that building is going into a major slump. Every building expert I know forecasts that housing starts will at the most be down only a little next year.

But here again we get back to the necessity for boom prevention. If we had not overliberalized mortgage terms—down payment and length of mortgage—we would not have had to experience a shock by cutting them back. I think the building fraternity would be very happy today with the pre-1954 terms if they hadn't had experience with the over-liberal system we adopted in 1954.

Q What is your feeling about the national debt? Here we are paying nothing off on the national debt and nobody seems to be arguing that when you owe money you ought to pay it off, except, if you buy an automobile, you're supposed to pay it off. Everybody else as a debtor is supposed to pay off his debt. Why isn't the Federal Government under compulsion to do the same?

A This is the time when the Treasury should be cutting back on the debt.

Q In a high period?

A In a period such as this. The difficulty is that our Government expenditures are still as high as they are largely because of defense, or defense-connected expenditures, which are not optional. Therefore it isn't easy at a time like this to reduce outlays—or the debt.

Q They're talking about a tax reduction next year. Would it be more important to have a surplus?

A I think it would be far better for us to be running a surplus and retiring the debt.

CUT TAXES? "WAIT"—

Q And tax reduction forgone?

A Tax reduction should, in my opinion, wait until business turns weak. Tax reduction is a potent stimulant—probably the most high-powered economic stimulant we know. It should be saved for the bad times. Today we should be paying off the debt and developing some reserves of financial strength.

Now I get to another financial difficulty. If the full-employment philosophy, which of course is a much broader thing than the Employment Act, means that the Federal Government must be ready at all times to spend money with abandon, and to run colossal deficits if necessary to prevent anything more than a miniscule recession, then what in the world are we doing with the federal-debt limit? If we really have adopted a system requiring that the Federal Government rush in with tens of billions in funds if necessary, then I am convinced that we ought to have no effective limit on the ability of the Government to raise money.

Q Isn't that debt limit largely academic, anyway?

A Well, it wouldn't be academic if business got bad and it became necessary to call Congress back into a special session to raise the debt limit. That would advertise the fact that business was worse than a lot of people thought it was.

Q Yet they've raised the debt limit almost every time there is a borrowing problem—

A Well, I must say there is something rather strange about a situation where a lot of our Congressmen insist on having a very low public-debt limit and then busy themselves the rest of the time spending more and more money and trying to reduce taxes.

Q If you have next year a violation of sound principles by reduction of taxes in the face of a debt that hasn't been reduced, what hope is there for a soundly managed economy in the future when politics governs to that extent? Isn't that the danger which can bring another depression, that we will not do the sound thing because of the expediencies of politics?

A Yes, it is, in one sense of the word. I hate to put it that bluntly, but this is the way it stacks up to me: Business ought to be very good next year. But if, for political or any other reason, we reduce taxes, step up spending and make money and credit easy, my guess is that we will get a boom so pronounced and so violent that in 1957—for the first time since the war—we would have to face up to the threat of something more than a recession.

I can't see that the stage is set for any financial collapse, or any really great, long-drawn-out, devastating depression or deflation. But if we run amok on all these policies next year, the next recession—in 1957, or maybe 1958—could easily be twice as severe and twice as long as the two we've had since the war.

WHY BUSINESS LOOKS GOOD—

Q What are the reasons why you think business will be good next year?

A Because the major factors which made business so good this year will still be applicable in 1956. Business this year was so good, not only because of the momentum upward from the recession, but also because everybody got a raise.

Congress raised its own salaries and then raised the wages of civilian, postal and military personnel. Stockholders got a raise because dividends were up. Union personnel got another round of increases, and a fat one. Everybody got a raise except the farmer, and even per capita income on the farm wasn't down very much. At any rate, consumer disposable income was increased and the money was spent.

Reason No. 2 was that the credit-easing techniques adopted in 1953-54, because many people feared that the recession was going to be far more severe than it turned out to be, began to take full effect this year.

And the third reason was that business introduced more new models of everything, engaged in more hard selling and spent more money for advertising than ever before.

Now, as to the coming year, I think that again everybody is going to get another raise, but this time it will be a raise plus a tax reduction. These two factors in combination mean that we really are going to give a big boost to consumers' disposable income.

Q What about easy credit terms? Weren't they a factor this year?

A I said that the easy-credit devices adopted the year before had full effect this year.

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. . . "Confidence is a factor of the highest importance"

Q But you won't have that next year?

A That gets back to the problem raised before. Will we dare, in the six months prior to the election, to continue our moderately restraining policies? Will we be willing really to jam the credit brakes on, if the boom threatens really to get out of hand? Or will we be tempted to return to easy policies?

Also, Congress will do some stimulating things in the area of road building, school building, farm support and Social Security liberalization—all highly stimulating. Therefore, I think that business ought to be pretty good next year.

PROSPERITY'S CAUSES—

Q To what extent is the business boom due to, or the result of, what we call confidence in the free-enterprise system engendered by a departure from great public spending and a concentration in great private spending?

A I think confidence has played a very important role in the recovery and in the boom which began around the middle of last year. Confidence is a factor which cannot be defined or measured, but it is of the highest importance.

Q For next year, for example, you've got 13 per cent up on capital, plant and equipment, increase in expenditure—I think up to 33 billion dollars. Is it traceable to confidence? Is it due to a large amount of investment funds made available out of profit? Why should it go up?

A Well, it's going up because consumer demand has increased so much that most businessmen simply sense that they haven't adequate capacity, especially when markets are growing so rapidly. Many commodities and products are in very short supply. There are gray markets in many of them. Many businessmen underestimated the real level of demand in this period and therefore have revised their estimates of the amounts of capacity they will need in the future.

Q What about automobiles next year? Do you think they will be as good as this year?

A I should expect it to be a very good automotive year.

Q Will prices generally be higher next year?

A Unless something disastrous happens politically, or internationally, I should think that the prices of nonagricultural goods would move up enough so that, even with no net rise in agricultural-commodity prices, the Bureau of Labor Statistics Index would rise at least 1½ per cent and it might go up as much as 3 per cent.

Q You spoke of a shortage of supply in many important things. Have we underestimated the demand consistently in recent years?

A We have in many lines. I doubt that anyone allowed for the perfectly colossal increase in metal absorption by Europe. Many students of the petroleum situation did not allow for the fact that petroleum demand was going to grow at such a sharp rate in Europe. I think that we had rather seriously underestimated the rate of economic growth in the Western world as a whole.

Q Wasn't there some years ago a great public debate about the fact that we had reached economic maturity, there were no more frontiers, and so on—what's happened to that doctrine?

A The fallibility of man's appraisal of the economic outlook may well be one of the reasons why we have booms and busts. Someone has observed that everything is changed but man himself. And it is curious—as well as ominous—that the deeper the conviction and the more nearly it approaches unanimity, the more likely it is to be wrong.

The "new era" of the '20s, concerning which our most respected scholars, businessmen, bankers and Government officials went off the deep end, ended in the biggest bust of all time.

Then, in the disastrous '30s, the notion that the United States was a mature nation, without a frontier, with a permanently stagnant economy, gradually became the accepted philosophy of almost everyone. The sequel to this was one of the greatest upsurges in economic activity we have ever experienced. And now we have completed the circle, with the belief deepening into fixed conviction that we now have a "new day" of boom without bust—of permanent prosperity.

Personally, I would feel far more certain that we would never have another depression if more people were apprehensive enough about the danger of it to oppose more vigorously the policies which will, if followed long enough, produce a boom so big that it can only end in a resounding bust.

Let me emphasize that we do unquestionably have what it takes to stage the greatest upsurge in real progress and solid prosperity ever recorded.

KEY TO PROFITS: RESEARCH—

Q Mr. Shields, why are you so optimistic on the long-term outlook?

A Primarily because we're spending 4 billion dollars per annum on research, which is more than we spent for such purposes in all the years of our history up to World War II. And now we're about to take a series of steps which will make the 4 billion we've been spending worth in effect at least 6 billion. We are about to provide our scientists with new electronic calculating tools which will make each dollar spent on research far more effective than it was before.

Our scientists have not been able to make a lot of the computations they wanted because there were not enough computing machines in the country to do the work. But with our new electronic computing machines the door is open for every productive form of computation our scientists wish to make. That alone, I think, increases the practical research power of the dollars we've been spending on technology.

We are, I am convinced, about to make a series of new major "breakthroughs" in scientific research, which will produce a host of new industries, new materials and new techniques for cutting costs so that markets can be wider.

Q How do you feel about population and growth? Do you think the doctrine is sound—population growth is constant and therefore demand increases?

A No, population growth is not a steady, unchanging influence. The fact that population seemed to be rounding off in the late '20s and the early '30s did have something to do with the development of the mature-economy philosophy.

But population is on the upsurge here and everywhere over the Western world. It is rising so spectacularly because medical technology has dropped the infant-mortality rate very sharply, has increased the average span of life and has solved the riddle of one major disease after another. A million and a half people are alive today, for example, because of antibiotics alone.

Q And the job population is growing, too, isn't it?

A Yes, as a result of these factors. In other words, the rise in population has a solid, technological basis, and the rise in

population, to get back to the basic-demand factor you mentioned a while ago, is far more pronounced in many other Western nations than it is here.

We have used new medical techniques to drop our rate of infant mortality from an already low level to a lower one, with pronounced effects on our population. But, in many Western nations, the rate of infant mortality is so high that the use of the techniques we have developed will have an explosive effect on their populations.

Q How much of this population growth has been going on at the same time the demand has been pent up due to war controls, so that we've got a double factor? To what extent has that resulted in our underestimating demand, perhaps?

A I think there was a tendency to underestimate the pent-up demand following the war—a natural tendency, since it is hard to measure these things statistically.

My position is that the long-term rate of growth of the Western nations as a whole will be spectacular because population will be rising at an accelerating rate, and because the application of modern techniques of production in countries where rates of productivity are relatively low will lift the level of production sharply and substantially. I am convinced that the stage is set for one of the greatest upsurges in economic activity the world has ever known.

Q How do you mesh that with your other statement—the possibility of having a serious upset in 1957? Are you talking of constant progress, or of the halting of this progress?

A The recession I mentioned as possible in 1957 would occur only if we develop real excesses in 1956. Such a recession would delay progress and mean that 10 years from now we would not have attained as high a level of economic activity as we are entitled to reach.

Q Are you making a distinction between those kinds of minor recessions experienced since the war and the possibility of a major upset of some kind in 1957?

A If we "let her rip" in 1956 we could very easily have a slump in 1957, or maybe 1958, twice as severe and twice as long as that of 1953-54. Such a recession would no more than temporarily halt our progress.

We must avoid at all costs a depression so severe that it would halt our progress for many years. That would be literally stupid in an environment of great expansion potentialities such as I have described. That is why I hope that we will be very careful indeed to prevent our booms from getting out of hand.

COST OF MISMANAGEMENT—

Q Could we get a depression of that very dangerous type comparable to 1929?

A I do not think so, but if we mismanage our affairs we could get a depression that would set us back on our heels.

Q Like the 1937 one?

A Oh, it would be longer, if not deeper than that. Remember that 1937 did not spiral.

Q You still had 8 million unemployed in that period. That's another thing—mightn't we have a period of relatively high activity and large unemployment?

A No, I do not think so. One of the greatest shortages today is in manpower. We have shortages of labor in most areas of this country. We have overemployment in most of our industrial areas today and it is not as serious here as it is in some of the countries of Europe.

Q What's happening to all those goods? They are making stuff and selling it and distributing it all over the world—

A The goods are being consumed. They and we have had a revolution in the distribution of income which has poured literally tens of billions of money into the middle-income—high-spending—brackets.

Q And that's for the first time, isn't it?

A Yes. Europe has always had a great middle class, but it never gave its middle classes much money to spend. Now it's pouring income into the great middle-income groups, which is sparking a tremendous increase in consumption of all of the basic raw materials.

Q Haven't you used a figure, something like 625 billion dollars, as gross national product 10 years from now? That would represent an increase of something more than 50 per cent?

A Yes, that's right. I was allowing for only a 1 per cent rise in commodity prices per year in that estimate.

Q Did you allow for unemployment?

A No more, relative to the total labor force, than we have now.

Q Did you arrive at any other figures except the 625 billion dollars—any figures on population, for example?

A I assumed a total population of 190 million by the end of 1956.

Q What could upset your estimates?

A Only the unmitigated foolishness of running a speculative boom so pronounced that we fall on our economic faces and experience a long-drawn-out depression. Also, a war or some other noneconomic disaster could prevent us from reaching the 625-billion-dollar goal in gross production.

SPECULATIVE FEVER "RISING"—

Q Would you call it real estate speculation we have now?

A Only in a limited way. Much money has been made—book profits or actual profits—on real estate, and the total involves a substantial number of tens of billions of dollars. Real estate prices are rising in a very pronounced way in key spots in the country; even farm real estate prices have been moving upward lately.

The important point, however, is that, in commodities, real estate and common stocks, here and in the rest of the Western world, the speculative fever is rising. Some people are buying because prices are going up. Many of them, who would not buy anything—for cash or credit—when the bargain counters were bulging a few years ago, are now going back into the market—and borrowing rather heavily to do so.

Here again there is reason for encouragement in the fact that most of the nations of the Western world have, in the last few months, been applying some of the credit brakes.

Q You don't think that credit restraints will be eased very much next year?

A If business began to show signs of sagging they certainly should and would be eased up—and in a pronounced way—but I doubt that it will be necessary.

Q The difference between a "soft money" party and a "hard money" party in our politics, if the difference exists in any degrees at all, becomes a great deal more important in this particular situation which you have described for the next 10 years, doesn't it?

(Continued on next page)

. . . "It is very fortunate that we have pension funds"

A Yes, we ought to have a relatively conservative policy.

Q In money alone?

A In the whole range of economic policy. We need confidence that Government policy will be stimulative but that it will not be inflationary, and I am sure that such confidence would produce an environment in which the growtl. factors would inevitably carry our standard of living to heights we hardly dare to dream of today.

Q Hasn't the one characteristic of all depressions in the past been a monetary panic and a sharp reduction in the volume of money and credit?

A Yes.

Q Haven't we got the tools now to stop a monetary panic?

A Yes, unless we permit a wild boom to develop. Such a boom would increase the vulnerability of our financial institutions and weaken our financial defenses against depression.

Q Isn't it wise, probably, to keep the debt large so that we'll have an adequate supply of money?

A I would much rather have the debt reduced now so that we would have reserves of borrowing power to offset any deflation that occurred later on in private credit.

NOT ENOUGH SAVING—

Q How do you regard this controversy over reduction in the amount of savings? Do you think the reduction of savings that is going on now is a healthy thing?

A No, I think it is most unhealthy and involves a real problem. Money rates are rising, not simply because the Federal Reserve took its foot off the credit accelerator. They're up because the demand for credit at the moment exceeds the generation of funds for savings. And, if I am not mistaken, that is a condition we're going to have to deal with over the long sweep ahead.

While there are no precise figures in this area, I feel reasonably sure that if we added up all the amounts of money all of the Western nations are going to need for their sound development programs—screening out all of the "dreamy" proposals and including only the capital needed for the projects we can't do without—it will be abundantly clear that we are not generating enough savings to meet that demand.

Here, there is a real risk of inflation. If central banks fill the gap between savings and investments with new credit, the stage would be set for an inflationary conflagration. We shall need some additional credit and money to support the growth of our economies. But if we produce too much it will result in inflation. And if we produce too little it will result in deflation.

It is a very delicate operation, because it is impossible to measure these things very accurately. In fact, we are never going to be able to know precisely what the size of the investment-savings gap really is.

Q Does this all mean that interest rates are going to rise?

A Yes—the trend of interest rates has to be upward, and I think it should be upward. One of the reasons we are not generating enough savings is that the low levels of interest rates inherited from the depression and war years represent an inadequate compensation for saving.

There are other reasons, too. One of them is that we have to have very high taxes to support our elaborate Social Security systems and heavy outlays for defense, which mean that people have less money to save.

The third reason is that that the fear of inflation encourages people to spend rather than to save their money.

In this environment, our new monetary policies play a vital role. By freeing interest rates to respond to increases in the demand for funds, by reducing the threat of inflation, and by providing more incentive for the saver, such policies can, in the course of time, narrow or eliminate the gap between savings and investment.

Q Looking ahead to demand for money that you were speaking of on the security markets years ahead, how much importance do you attach to pension funds or other institutional funds?

A Pension funds involve a host of problems, but it is very fortunate that we have them, because otherwise savings would be even lower than they are today. As I picture our future, we're going to need every dollar of savings we can lay our hands on. Therefore, I am delighted that in the pension funds we have a new source of virtually involuntary savings.

And I am convinced that the people who are covered into pension systems do not stop other forms of savings, so that pension funds represent in large part a wholly new form of savings. But, even allowing for additional savings from this source, we still will need vastly more funds than we are going to be able to generate through savings.

Q The picture you have given isn't a very attractive one from the standpoint of the bond buyer, with commodity prices rising 10 per cent in 10 years and the rate of interest climbing up so that the value of the bonds is down—

A No, the changes will be so slow and moderate that most bond buyers can disregard them, and if we eliminate or reduce materially the threat of inflation, bonds will not look so unattractive. Then people would not be able to say, "Oh well, we'll get paid in postage stamps, anyway."

Q If this feeling gets around, stocks will become still more popular, won't they?

A To the ent ent that people invest—not speculate—that would be all to the good. Business needs to be able to sell more stock so as to prevent debt-equity ratios from getting out of line.

Q Have they been rising?

A They have been rising, but not alarmingly, so far. Now that we have a better stock market and now that the pension funds are a source of demand for equities, business may well be able to get more of the money it needs from the sale of equities.

TIME TO ADD CAPITAL—

Q Is most of the money needed for plant and equipment coming from bonds or is most of it coming from sale of stock or from internal profits?

A Most of it is being generated internally. More and more of it, however, of late, has been coming from stock issues or convertible-bond issues—which will in the course of time represent equity rather than bond money.

Q Is that a sound trend?

A I think it certainly is. I'd like to see every business and financial institution in the world use this period of boom to put some financial meat on its bones, to build protective reserves of financial strength for use in case economic trends take a turn for the worse.

Q Including the Government, I suppose?

A Including the Government—by all means, including the Government!

Special Report

(This article represents the result of an extensive research on a problem of outstanding importance.)

WHO'LL GET FORD FUND'S HALF-BILLION DOLLARS

How is 550 million dollars from the Ford Foundation going to be spent? Who will get the money in the long run?

This report tells you what the biggest gift of them all means to colleges, hospitals, medical schools; what the terms are.

NEW YORK

A Christmas present has just been given to the college professor who hasn't had a decent raise in years, the person who needs hospital care and the young man who wants to be a doctor.

These are the people who are going to get the most from the 550 million dollars that the Ford Foundation is turning over to 615 colleges and universities, 3,500 hospitals and scores of medical schools all over the country.

The huge sum of money involved amounts to half the size of the U. S. national debt before World War I. That part of the donation that is devoted to education, 350 million dollars, is more than the Federal Government contributes to the nation's schools in a year's time.

In terms of the people who will benefit, the money means this:

Out of the 260 million dollars that is going to private colleges, the average professor or instructor is due for a pay raise of 4 to 6 per cent. This will put him closer to being as well off as he was in 1939, but still will not restore him to the standard of living he enjoyed then.

From 200 million dollars allotted to privately supported hospitals, the man, woman or child who is sick or handicapped will have a better chance to get a hospital bed, specialized attention, adequate nursing, benefits of new equipment and research facilities.

The 90 million dollars given to medical schools means a broader education for the medical student, in what has become the costliest field of schooling.

The rules. Recipients of the awards found few strings attached.

Endowments go to just about all the privately supported colleges and universities in the U. S. that are accredited regionally as four-year schools.

The roster of colleges getting the salary grants ranges from New York University, given the ceiling of 5 millions, down to the California School of Fine Arts in San Francisco, receiving $31,900.

You find the Ivy League pillars: Har-

HOW FORD FOUNDATION GIFTS WILL WORK

AT A TYPICAL COLLEGE

Assuming it gets a Foundation grant of $375,000, a small college in the Midwest with 895 students is expected to apply the gifts as follows:

Yearly income from grant:	**$15,000** *(based on 4% annual return)*
Faculty members eligible for aid:	**75 professors and instructors**
Average pay raise available per faculty member:	**$200 per year**
Average faculty salary now is:	**$5,000 or $96.15 per week**
Average salary will go up to:	**$5,200 or $100 per week**
PAY RAISE, from Foundation gift:	**$3.85 per week, average**

AT 3 TYPICAL HOSPITALS

In the Washington, D.C. area, as one example, 23 hospitals were allocated grants of $1,872,200. Spending plans of three institutions:

George Washington University Hospital:	**$226,500 — Research in arthritis, cancer, etc.**
Children's Hospital:	**$76,500 — Research laboratory.**
Anderson Othopedic Hospital:	**$21,700 — Elevator in a new addition.**

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[continued]

WHO'LL GET FORD FUND'S HALF BILLION

vard receives 4.5 millions; Yale, 4 millions; Princeton, 3.3 millions. There are famous colleges for women, such as Vassar, which gets 1.1 million; Catholic universities, such as Notre Dame, which receives 2.6 millions; little schools for Negroes, such as Tougaloo Southern Christian, in Mississippi—$78,600.

It was not always easy to give the money away. Some universities had to be prodded to fill out questionnaires. One New England college just got under the wire by winning regional accreditation on December 9, the day the Foundation made the decision.

Each college will get an endowment grant equivalent to last year's faculty payroll for full-time teachers in the arts and sciences. This sum they are to invest —and in any way they want to. For 10 years, they must spend the income, not the principal, to raise faculty salaries. After that, they can use the capital, presumably for any purpose. The college itself will decide who will get the faculty raises.

About one in five of the colleges also will get "accomplishment" grants, amounting to an additional half of a year's payroll. These 126 are the schools that are judged to have done the best since World War II in benefiting their teachers. Of this "reward" money, totaling 50 millions, both capital and income can be used, and for either salaries or other pressing needs.

No college need match any of the money with any other funds.

How it goes. The chart on page 65 shows what a typical smaller college, with 895 students, can do for its faculty with its $375,000 endowment grant from the Ford Foundation.

In this particular college, the highest-paid member of the faculty of 75 now gets $7,500 a year; the lowest, $3,200.

If it liked, the college could devote the entire income from its grant to raising the salaries of just a few teachers. However, college presidents have been told by the Foundation that investment will, as a rule, produce sufficient income for average "across the board" raises of 4 per cent. If this college also had received an accomplishment grant, its raises could average 6 per cent.

If the raises are averaged out, then, the top professor in the smaller college will get a raise of $300 a year; the lowest-paid instructor, $128.

You can contrast this scale with that at Harvard, where the highest-paid professor gets $17,000 a year and the average for instructors is about $4,500.

Harvard expects that its grant of 4.5 millions will yield $225,000 a year. This is about 6 per cent of the payroll for the full-time arts and sciences faculty, numbering 372 members.

Here, again, Harvard may make selective wage raises. But the top professor, if he should get a 6 per cent raise, would receive a yearly increase of $1,020. The average instructor would get $270 more a year.

One point that is being impressed on the colleges is that only half of the Foundation grants will be available by next July 1; the other half will be paid within the year following. Thus the raises will not be so quick or so big as they would be if all the money came right away.

Who needs it. How badly this money is needed by colleges and universities in general is shown by statistics for 1953-54 compiled by the American Association of University Professors.

—Crockett in the Washington Evening Star

"MONUMENT TO FREE ENTERPRISE"
From autos, endowments.

These figures show that, at 35 selected colleges, the faculty members needed pay increases averaging 12.4 per cent just in order to get back the purchasing power that they had in 1939-40.

Of all the teachers, the full professor turned out to be the worst off, in terms of decline in living standard. In 1954, his "real" personal income stood at 83 per cent of its 1939 value. Meanwhile, per capita "real" income in the U. S. had risen to 164 per cent of 1939, and "real" income of soft-coal miners alone was up to 187 per cent.

The medical side. The Foundation, in giving voluntary, non-profit hospitals anywhere from $10,000 to $250,000 each in outright grants, put only the broadest limit on use of the money. It can be spent for any improvement or extension of hospital service, but not for operating expenses or services already being performed.

Thus a hospital can add beds, hire more nurses, install another elevator or X-ray machine, build a new laboratory. It can spend any or all the money on outpatients, on the mentally ill, for handicapped children—even for disaster planning. It cannot use the grant to make up current deficits.

To many a hospital in financial straits, the award was a lifesaver.

The hospitals that are getting the grants are those that are approved by the American Hospital Association. The amount each gets depends on the number of "patient days" of service provided and the number of births in the hospital. These were selected as the best measures of hospital use and service.

In giving away 90 million dollars to the country's privately supported medical schools, in the form of endowments, the Foundation was guided by research indicating that the deficit incurred in training each medical student is as high as $2,800 a year.

It costs about four times as much to train a medical student as an ordinary undergraduate. Medical schools, with less than 10 per cent of total university enrollments, use up as much as 36 per cent of total budgets.

How the 90 millions will be allocated will be up to an advisory committee, yet to be formed. However, it is obvious that a good many of the universities given endowment grants will also get medical-school endowments.

Where it comes from. To find the money for the enormous outlays just announced, the Ford Foundation is prepared to dip into its capital assets. These will be expanded to more than 3 billion dollars after stock in the Ford Motor Company is sold to the public in January.

During 1955, the amount earmarked for college-faculty salaries was increased fourfold. Last March, 50 millions was appropriated for this purpose. But, after an advisory committee began to study the problem, the Foundation's trustees decided that an additional 210 millions could be made available.

The total of 260 millions allocated to private colleges and universities was the result. Along with the 290 millions for hospitals and medical schools, it all adds up to the biggest single private philanthropy on record, and possibly the one with the easiest terms.

STATE AID TO BUILD SCHOOLS?

"I Would Never Accept It," Archbishop Cushing Says

In what follows, Archbishop Cushing of Boston gives his views on the kinds of aid that should be given Catholic pupils. The Archbishop asserts that he, for one, would not accept tax money to build church schools, even if funds were offered.

As for aid to pupils, he asks the same services that are provided in public schools—bus transportation, health services, food for school lunches.

Following are extracts from two addresses by the Most Rev. Richard J. Cushing, Archbishop of Boston, to Catholic audiences in Boston and Cambridge, Mass., Dec. 4, 1955:

We are not looking for any federal or government aid to build our schools. I would absolutely refuse the offer, for I cannot see how any government or State would build schools without expecting to control them in whole or in part.

Catholic children should not be treated as second-class citizens. When funds are available for the welfare of children, such as health and bus transportation and lunches—which services are for the children—our children should not be excluded or counted out.

The diocesan school system has made tremendous strides and there is no alternative to the voluntary method of financing Catholic school building.

We are not looking to any government for any assistance in building our system of education. First of all, we could never get such aid. Historically, and under the Constitution as it has been interpreted, we could not receive such aid.

I don't speak for the hierarchy of the United States; I speak for the Archbishop of Boston. And I repeat that even though the Government could and would build our schools, or would want to, I would never accept the offer.

The natural law and the Supreme Court's interpretation of the Constitution justify the existence of Church schools. We do insist that no matter what people may say about private Church-sponsored, or parochial-school, education, this system is demanded by the natural law of God and, further, exists on its own right as a result of the Supreme Court interpretation of the Constitution of the United States.

We are not against anybody. We are not in opposition to anybody. Our relationships with the public-school systems in every city and town are ideal. We have no trouble with anyone, and we do not want any.

We are proud of our system of education and have reason to be proud. We know we are giving our children the best. We know what we are teaching has stood the test of ages. No one will ever be taught anything detrimental to the welfare of our country.

* * *

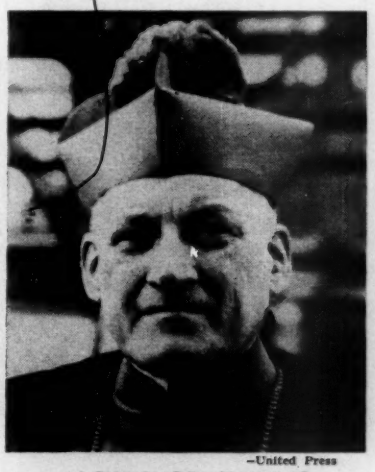
Today, as it becomes increasingly difficult to maintain and develop our schools, let us never make the mistake of assuming an attitude of hostility toward our American system of government as such, merely because certain of its policies may affect us adversely, or because we may suffer injustice in the distribution of governmental funds and subsidies.

We have nothing to gain and everything to lose if we encourage in our Catholic people an attitude of disrespect toward our Government because of regrettable departure from Christian principles on the part of some of our elected representatives. We must fight secularism, but we must never attack the structure itself of the legal institutions through which the authority of God imposes itself upon our temporal life. We must insist upon our rights as members of the Church to worship God in accordance with the teachings of our faith, but we must never repudiate in principle our obligations as citizens of the United States of America.

Let us, as intelligent and zealous Catholic laymen, support every reasonable and well-planned effort against placing Catholic school children in an inferior category because they chose to attend a religious school. Let us oppose, with all our energy, the attempts of educators trained in a Godless tradition to maneuver our schools and colleges into a position of helpless subserviency to iniquitous state control.

Let us do our utmost to place and keep in posts of public responsibility those who can be counted upon to be fair and square to God and country in accordance with the highest ideals of American democracy.

And let us at the same time strive to build up in our people an attitude of deepest respect for the authority of every legitimately appointed public official.



—United Press

ARCHBISHOP CUSHING

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FROM KOREA

GUNS SILENT, BUT—

TRUCE LINE—This Christmas in Korea, the third peaceful one since 1950, you hear a lot about the "GOP Brigade."

That's the GI name for the troops in the ground observation posts on the truce line overlooking North Korea. Nowhere else in the world are American soldiers on duty so close to the full striking power of Communist combat forces.

What these soldiers do is police the truce line that has been drawn across Korea and keep a watchful eye out for any treacherous move by the Communists that could mean a drive down the invasion corridor from North Korea to Seoul, capital of South Korea and headquarters for the Eighth Army.

It's a cold, lonely and dangerous job, and these American troops are under no illusion about their exposed position. When you ask what the brigade would do if war came, officers tell of a briefing given to a group of Congressmen. At the end of the briefing, one of the Congressmen asked an officer to repeat his remarks about the soldiers' mission in case fighting started again. The officer replied that, in such an event, "the mission of the GOP is to deceive, delay and disorganize."

One thing these men can never forget is that enormously powerful hordes of enemy troops, backed up by millions of Communists, are only a few thousand yards away.

Barbed wire and mines. Jeeploads of armed "Civil Police" from the brigade go out daily to patrol the southern half of the demilitarized zone. At set points, the soldiers move through gaps in the barbed wire and take up their posts in deeply imbedded bunkers that are perched high on hills overlooking Communist positions. Others hike through the hills to look out at North Korea from new vantage points.

On their patrols, the GI's plod up and down "safe lanes." These are marked off in the mine fields that are laid throughout the no man's land along the truce line. The demarcation line stretches 187 miles across Korea and is marked by 1,292 signs. One of the jobs of the soldiers is to clear away the underbrush that grows up around the markers. This is to prevent American and South Korean

—Department of Defense

ON SENTRY DUTY IN KOREA
Beyond the hills, Communist hordes

soldiers from blundering into Communist territory and to make it possible to fix responsibility if a "border" incident occurs.

Red "temptation." The Communists, too—and they are mostly North Koreans—regularly patrol their side of the demarcation line. Sometimes they unwittingly lighten the tension in the American patrols by trying to persuade GI's to become turncoats. Few of the Communist troops speak English, so they often use gestures. For example, the Reds will go through the motions of climbing a fence. Occasionally they try to tempt the GI's with gifts, such as candy.

Another trick that the Communists have thought up is the setting out of "bait" on the markers along the truce line. This consists of propaganda leaflets and copies of a book, "The Thinking Soldier," which they claim was written by American turncoats now in China.

Sometimes the Americans find themselves getting into action—but the non-shooting kind. This is when they catch people escaping from the North. Most of the time those in flight are Korean refugees. However, a recent catch was a Chinese soldier who had gone AWOL from his outfit. He told his captors he figured his chances of staying alive were better as a prisoner in the South than if he returned to his own company.

The ever-present threat of an explosive incident keeps the troops up here, along the truce line, from sharing comforts that are enjoyed by the other GI's in Korea. Two understrength divisions, plus separate units attached to the Eighth Army, are all that remains of the mighty American force that was in Korea during the war. Quarters of the divisional troops are to the south, around Seoul. These men wear polished boots and dress up their uniforms a bit with colorful neck scarves. They have Quonset huts, and their jeeps are winterized and have heaters.

You don't find many Quonset huts for the GI's stationed near the line. They live in tents that have wood floors and insulated walls, and try to keep out the winter cold with small, oil-burning stoves. Jeeps near the line have neither sides nor tops to cut off the icy winds. The theory is that a soldier can't see well or shoot well from an enclosed vehicle.

One of the differences you notice about Christmas time in Korea this year is that, when outside their quarters, soldiers are no longer required to carry weapons with them at all times. This could be interpreted to mean that the chances of war are less than a year ago.

On Christmas—patrol duty. But, here on the truce line, the GI's won't be taking any chances, Christmas or no. Every day they'll be out in the bleak hills at their lonely outposts, watching those Communist troops only a few thousand yards away.

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Interviews with U. S. MILITARY LEADERS IN FORMOSA ZONE

Vice Adm. A. M. Pride • Maj. Gen. G. W. Smythe

GETTING HOT AGAIN— THE WAR OVER FORMOSA

A flare-up in fighting around Formosa is drawing new attention to that shooting war between Chinese Nationalists and Reds.

It can get bigger with startling speed.

How does the "danger zone" look to U. S. military men in the area?

What is behind the sporadic fighting between the Chinese Reds and Chiang Kai-shek's forces on Formosa and the offshore islands?

To measure the chances for big war, one that could involve Americans, *U. S. News & World Report* interviewed Vice Adm. Alfred M. Pride, commander of the U. S. Seventh Fleet—which is on guard in the area—and Maj. Gen. George W. Smythe, head of the U. S. Military Assistance Advisory Group on Formosa.

Admiral Pride, interviewed aboard his flagship in Hong Kong Harbor, discussed the overall situation in the Formosa Strait. The interview with General Smythe in Formosa reports on how Nationalist forces stack up against their Communist enemies.

PRIDE: IF THERE'S A "BRUSH FIRE," THE FLEET GOES IN

Are the Reds building up for a full-scale attack against Formosa?

Can Chiang Kai-shek hold the islands of Quemoy and Matsu without U. S. help?

Following is what Admiral Pride has to say about the military situation in one of the "hot corners" of the "cold war."

Aboard U.S.S. *ST. PAUL*

Q How are things going around Formosa now, Admiral Pride?

A Operations in the Strait seem to be in a state of uneasy stability. The patrols go on from day to day. The Chinese Nationalists have their encounters with the Communists in the air and on the sea, and they exchange bombardments on the islands.

Q Would you say there is, in effect, a cease-fire in the Formosa Strait?

A I don't see how you can say that there is a cease-fire when there are shooting and airplane encounters almost daily.

Q What are the Chinese Communists doing about their airfields on the mainland opposite Formosa?

A Improvement of the air installations appears to go on at a steady pace. Exactly what this is leading up to, only the Communists know.

Q Are these bases for both fighters and bombers?

A They appear to be more for fighters.

Q Does that mean they are defensive rather than for offense?

A For fighters and possibly light bombers.

Q Why are the Chinese Communists expanding their bases farther inland, that is, west of their coastal air bases?

A If this is so, I would say it's part of a Chinese redeployment of their air strength in Southeast China.

Q But still aimed at the Formosa area?

A I don't know their intent as to a campaign in that direction. The facilities would be suitable.

Q Wasn't it quite a job to build those airfields with the Nationalists blockading the coast?

A Some are former Japanese fields, not all new installations. Most of them seem to have been such as had been used before, according to the reports.

Q Do you operate on the assumption that the Communists are getting ready for action, if they think that is necessary?

A We always have to assume that a potential enemy may take action.

Q Have you any idea how far the Chinese Communists have gone in building the new railroad to Foochow? Aren't they working on it now?

A Yes, they are. I would say if you average out the reports in the press, you will probably come pretty close to how far it has progressed.

Q The Communists emphasize that the railroad has great military importance and that they are speeding its construction for the defense of their country—

A It is very important. Any communications in that part of

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Communists Improving Airfields . . . Their Guns Threaten Islands . . . Chiang's Men Get Ready

the world are important, whether or not their specific purpose is for defense. It would certainly make their supply situation a lot easier.

Q Has there been any actual increase in Communist air strength?

A There does not appear to have been any increase in deployed aircraft.

Q Could that situation change overnight, if necessary?

A Sure.

Q How about their coastal shipping—is there any increase?

A No. That we can observe fairly closely. It varies a little from day to day, but I would say the general level has been about the same for quite a long while.

Q What's behind the sporadic Communist shelling of Quemoy?

A Of course, only the Communists know that. Usually, the increase in bombardment seems to be timed with some political event. For example, a recent one was on the anniversary of the Communists' attempt to capture Kinmen [Quemoy] some time ago. Another seemed to coincide with the Communist anniversary on the first of October.

Q Do you think things might get a little hotter, and perhaps the Communists will try to hit the offshore islands?

A Only the Communists know. The Communists certainly threaten those islands. I suppose that on the day that they think it is politically expedient and it does not cost them too much, they will attempt to take them.

Q You mean they think they might get them through a political deal rather than by using force?

A I wouldn't think that. I don't see how.

Q Do you see any circumstances in which the Nationalists would give them up without a fight?

A I don't see that. The Nationalists are determined to hold those islands and it is my firm opinion they will do it to the best of their ability.

Q You've visited the islands several times?

A I have.

Q What's your impression of the defensive capabilities of the Nationalists.

A On the islands? Very well established; very well equipped.

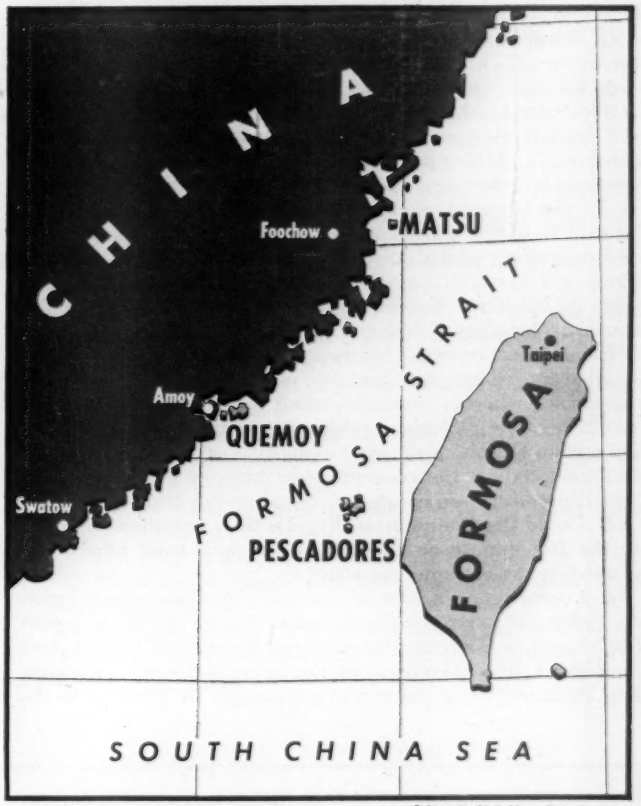
Q Just what defenses do the Nationalists have on the islands?

A They're very well prepared in conventional underground, camouflaged positions, and communications. Naturally, they are continually improving their positions.

Q Wouldn't they have a difficult supply problem, if hostilities began?

A Yes. The geography shows that.

Q Is it true that the Communists have Quemoy almost ringed with guns now?



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WHERE CHINESE NATIONALISTS FACE REDS
"Shooting and airplane encounters almost every day"

A Yes. They have gun positions which threaten most of the islands—practically all of them.

Q Is the key to the defense of the offshore islands air power? In other words, if the Communists establish air control could they take the islands? And could the Nationalists hold them if they have air control?

A It is very difficult to predict what will happen in any campaign if only one arm establishes supremacy. The fact is, in these days of high speed in the air, the establishment of absolute air control becomes a doubtful possibility. With jets available, the other side can almost always get some of his aircraft into and out of an area, although not in pre-

(Continued on next page)

. . . Attack may be evident "several days in advance"

dominant strength. If, on a certain date, the Communists could establish absolute air control over the islands, which I doubt, they would still have the very determined Nationalist forces on the islands to reckon with. I do not believe they would give up on that date.

Q What it boils down to, then, is that the Communists will still need to invade the islands with land and sea forces? Is there anything to indicate they have the capacity to do that?

A They tried it several years ago and were defeated. My assumption would be they would have profited by that lesson and would not undertake it again until they were very well prepared. Just how well prepared they may be, I don't know.

Q What are the problems the Communists face if they decide to attack Quemoy and the Matsus?

A Kinmen [Quemoy] and the Matsus pose quite different problems for amphibious attack. Kinmen has extensive beaches and considerably fairly level and open country back of the beaches. The Matsu islands, on the other hand, have very few beaches and they are quite precipitous. The Kinmen topography permits maneuver, while maneuver on the Matsus is difficult. Landing places are not so numerous on the Matsus and operations probably would have to be focused on very few beaches, which, being few, are easily defended. Kinmen, with its extensive beaches, gives the attacker much wider choice of landing places.

Communicationswise, Matsu operations would probably be simpler for an attacker because of the compactness of the operations, whereas communications in the attack on Kinmen would be more difficult in proportion to the spreading out of the action. Supply of the operations against the Matsus would be facilitated by the concentration, but, on the other hand, would present more compact targets for the same reason.

Q Could the Communists disguise their intentions right up to the last minute or would they tip their hand when concentrating troops and supplies?

A I would guess it is highly probable that the concentration of forces and surface craft necessary for an attack on either the Matsus or Kinmen islands would be evident several days in advance, but, of course, you can never count on such warning. Probably the fellows who got caught at Trenton in the Revolutionary War figured that they would always observe enemy preparations, but Washington surprised them, and it can happen to anyone who is certain that he will not be surprised.

Q If the Nationalists thought that an attack was impending, would it be natural to assume they would begin hitting the Communist airfields as soon as possible?

A I'd rather not discuss this.

Q Well, then, if the Communists started an invasion, wouldn't it be natural for the Nationalists to attack the air bases?

A I should think so.

Q Do the Nationalists have the type of bombers that would be necessary to hit the bases?

A Yes.

Q Which is more important to the defense of Formosa—Quemoy or Matsu?

A That would be very difficult to evaluate. I don't believe you could until you knew exactly how the Communists would operate. They are both forward positions which are advantageous and their relative importance would be dictated by the Communist plan of campaign.

Q What is the chief importance of the offshore islands?

A Control of the ports of Foochow and Amoy and surveillance of coastal air and surface operations.

Q Since the Bandung Conference, the Chinese Communists have taken a softer line. Do you think this is just a tactic of the moment or does it represent a real change in policy on the part of Peiping?

A I have seen nothing to convince me that there has been any change in Communist aspirations.

Q How long have you had command of the Seventh Fleet, Admiral?

A Since 1 December 1953.

Q What is the extent of the Seventh Fleet area of operations?

A From Hokkaido down through the South China Sea and around to the Indian Ocean.

Q Is your main job, as you see it, the defense of Formosa?

A No. My job is to assist in the defense of Japan, support our operations in Korea and assist in the defense of Taiwan

—USN&WR Photo

Vice Adm. Alfred M. Pride, 58, began his career in the U. S. Navy as an enlisted man. He joined up as a machinist's mate in 1917. But he rose fast. Within a year and a half he was an ensign in the Naval Reserve Flying Corps. He subsequently became a test pilot and in the 1920s he made some of the first experimental take-offs and landings on the deck of an aircraft carrier.

A native of Somerville, Mass., Vice Admiral Pride commanded the aircraft carrier U.S.S. *Belleau Wood* in the Pacific during World War II, winning a citation for action against Japanese bases at Tinian, Saipan and Guam in the Marianas Islands.

Admiral Pride served as chief of the Navy's Bureau of Aeronautics in Washington from 1947 to 1951. In November, 1953, he was named commander of the Seventh Fleet in the Pacific. This made him the only former enlisted man who had a fleet command in the Navy. In that post he directed the evacuation of Chinese Nationalist civilians from the Tachen Islands off the coast of China on the approaches to Formosa.

. . . Is Seventh Fleet in first line of defense? "Yes"

and Penghu [Formosa and the Pescadores]. In general, to support United States policy throughout the Far East.

Q In the event of a "brush fire" anywhere in Asia, wouldn't you be automatically in the first line of defense?

A Yes.

Q Is the Seventh Fleet, in its over-all strength, about what it was when you first took command?

A Just about the same.

Q Has the Navy assumed a greater burden as a result of the withdrawal of a large proportion of U. S. ground forces from the Far East?

A No. I think that the Navy has been assigned its proportionate share of the burden and I do not think that any load has been shifted from one service to another. The assignment of forces in this area is agreed upon by the Joint Chiefs of Staff and is consonant with the situation of the moment.

SMYTHE: NATIONALIST FORCES ARE GETTING STRONGER

If the Reds hit Chiang Kai-shek in force—
How good is Chiang's fighting machine?
Have age and idleness hurt his Army?
This interview with Maj. Gen. George W. Smythe, head of the U. S. Military Assistance Advisory Group on Formosa, is a candid report on the combat readiness of the Chinese Nationalists on Formosa.

At TAIPEI, Formosa

Q How does the Chinese Nationalist Army today compare with what it was five years ago, General Smythe?

A I have no knowledge as to the actual comparison, but the present forces are a well-balanced combination of Army, Air Force, Navy and Marines which will be quite formidable when they become fully developed.

Q How would you compare the Chinese Communist soldier with the Nationalist soldier?

A Well, I think that the Nationalist soldier has the same capability as the Chinese Communists, and they are working as hard as any troops I've seen. They do a lot of things American troops wouldn't do.

Q But they have had no combat experience since 1949. Would the Communists who fought in Korea be better men?

A They might, but not necessarily so. I have seen fresh units go in and do as good a job as a unit that had been in combat for some time. As a matter of fact, they do a better job sometimes since they don't know all the problems facing them. I think the Chinese Nationalists would give a good account of themselves.

Q Have you had a chance to see the Nationalist Air Force?

A Yes, I have visited all the Air Force bases here.

Q What is your impression of their capabilities?

A I think the individual Chinese pilot is as good as any I have seen anyplace. They have the same capability as anyone else.

Q Does the Nationalist Air Force have jets now?

A Yes, they are equipped with standard jet planes.

Q How about maintenance?

A That is a big problem because the maintenance of jet aircraft requires a very high degree of specialization.

Q And the Chinese don't have that?

A The Chinese do not have the capability at the present time.

Q Are they still using conventional planes?

A They have some fighter units which are equipped with conventional planes.

Q Do we plan to have the Air Force converted almost entirely to jets?

A The plan is to have a modern Air Force.

Q What is the size of the U. S. Military Assistance Advisory Group here?

A Well, we have a force here which is gradually increasing in size. It is commensurate with the mission, but the number involved is not releasable.

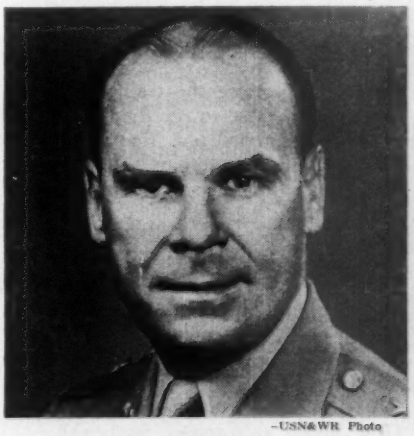
(Continued on next page)

Maj. Gen. George W. Smythe is a combat veteran with a battle record reaching from North Africa in World War II to Korea.

The General, born in Norristown, Pa., Aug. 4, 1899, entered the U. S. Military Academy in 1920. Two years later he was an all-American football player and subsequently was declared West Point's best all-around athlete of the class of 1924.

During the second World War, General Smythe fought in North Africa and Sicily. His regiment struck across the Cherbourg peninsula after the European invasion and took part in the Battle of the Bulge. His was the first regiment across the Remagen Bridge over the Rhine. He was an Infantry division commander during the Korean war. He has been decorated seven times by the U. S. and holds decorations awarded him by France, Great Britain and Belgium.

General Smythe went to Formosa in May, 1955, as head of the Army section of the Military Assistance Advisory Group working with the Chinese Nationalists. He became Chief of the MAAG program on Formosa last June 28.



–USN&WR Photo

. . . "The more time Nationalists have to prepare, the better"

Q Do you get right down with the troops in the field and help them with their training, or is it primarily teaching them how to use our equipment?

A Many of the advisers work down through the various echelons, introducing American methods wherever necessary by demonstration or by teaching in schools.

Q Why don't you go down to the regimental level, as our Advisory Group in Korea did?

A We do go down to regimental level—in some cases—and even lower, depending upon the type of unit.

Q Do the Americans in MAAG seem to feel they are doing a good job with the Nationalists?

A I feel that MAAG advisers are specially selected men and that they are doing a first-rate job.

Q Are you training all sections of the Nationalist armed forces?

A Yes, the MAAG is responsible for assisting the Chinese Army, Navy, Air Force and Marines.

MANY TRAINED IN U.S.—

Q Do we send Chinese back to the United States for advanced training?

A Yes, there are quite a number of Chinese officers who are trained in the United States from all the services—to get the technical training and skills which are necessary to keep the equipment operational.

Q Do our pilots work with the Chinese Air Force?

A MAAG Air Force personnel are responsible for advising and training the Chinese Air Force.

Q Is that on the command level or tactical?

A Our advisers do not command any of the Chinese forces, but we do advise on training and tactical operation.

Q Will the morale of the Nationalist Army go down if the so-called cease-fire situation continues and they begin to lose hope of returning to the mainland?

A The more time the Chinese Nationalists have to prepare themselves, the better they will be.

Q Because new troops are being brought in or because the entire Nationalist Army has to be brought up to date?

A Whenever new men are inducted into the armed forces, time is required to bring them up to the efficiency of seasoned troops.

Q Is that part of your MAAG program?

A We check and supervise the training program which the Chinese have planned and prepared. We do not prepare the program ourselves.

Q But you supervise the training?

A Yes, we supervise to see that the objectives of the training program are carried out. The actual training is regulated through the Chinese command channels.

Q Can the Nationalists repair and rehabilitate their military equipment?

A They have engine-rebuild shops, dry-cell-battery plants and ammunition plants. They make all their own clothing from raw cotton. Recently, they have put into operation a jeep-rebuild plant. The one you just saw is a sample of what the Chinese Ordnance can do.

Q The jeep that you presented to Generalissimo Chiang Kai-shek today?

A Yes, that came from the rebuild line.

Q How about ship-repair facilities?

A Ships are all repaired here.

Q Could they do a major ship-repair job in Formosa?

A I believe they have dry-dock facilities to take care of any vessel they have.

Q Are tanks repaired here?

A Yes, we have a tank-engine rebuild shop and do major repairs on tanks.

Q Years ago, the Nationalists complained of shortage of ammunition for range practice. Is that true now?

A No, we have programmed sufficient training ammunition to make sure that they do have the ammunition for practice firing during training.

Q Is this paying off in marksmanship?

A Yes, I think we made progress in marksmanship training.

Q Is the Nationalist artillery effective?

A I would say that they are very good.

Q Are they as good as the Chinese Communists were in Korea?

A In Korea, the Communists were really deadly. The Chinese Nationalists have the same capability and they have demonstrated it.

Q What are the Nationalists doing about the problem of soldiers getting too old to fight?

A The problem of over-age manpower is being handled by inducting Formosans into the armed forces. We are just about to conclude an agreement to develop a replacement system in which a Formosan goes into the Army for a set period of time, following which he reverts to the Reserves. When this plan becomes effective, the average age of the Chinese armed forces will be reduced considerably.

Q Do the Formosans serve in units with mainland Chinese?

A They are integrated into the Chinese armed forces.

Q Do they seem to get along all right?

A Yes, they do. I know of no instance where they have not gotten along.

Q How does the Formosan soldier stack up with the mainlander?

A I think he is a good soldier, probably better educated than the average soldier; therefore, he should be a more capable one from an all-around viewpoint.

CHIANG'S RULE "POPULAR"—

Q If the Nationalists should ever invade the mainland, do you think the Formosans would be willing to help them?

A I have had no reason to form an opinion on this subject. I believe that President Chiang Kai-shek has installed a system of government here which is very popular and that he has gained the loyalty of the Formosans.

Q Does the Nationalist military strength include many combat ineffectives?

A That is a very controversial question. We do not know right now just exactly what the figure is. However, a special muster was held recently and we are waiting returns on the situation.

Q Are they weeding out the over-age?

A Yes, they have a resettlement program to eliminate ineffectives and have set up projects for over-age and those unsuitable for military service.

Q How do you determine when a man is ineffective?

A Each man is physically examined to determine whether a man is ineffective or suitable for further service.

Q Based on what—age, physical condition?

A Well, it is based mainly on physical condition, but age

–Black Star

NATIONALIST TROOPS REHEARSE AN AMPHIBIOUS-LANDING OPERATION
"The problem of over-age manpower is being handled by inducting Formosans"

may enter into it also. A man can't be a soldier all his life. He has to move up into another bracket and develop his talent along another line.

Q Are the soldiers moving into civilian life?

A That is the main purpose of this program to resettle ineffectives into civilian jobs where they can make a living and be useful citizens.

Q What happens to the old generals?

A Well, the same thing applies to generals. They are being retired and resettled so that they can become useful in some civilian occupation.

Q Do you think a smaller Nationalist force would be more effective than a mass army?

A Yes, I believe that a small, well-trained force would be more effective than a large mass of poorly trained individuals.

Q Are the Nationalists improving in their maintenance of the American equipment?

A Yes, they are making strides, but we have the same problem as in the United States. Maintenance of equipment is always a problem, particularly due to weather conditions here.

Q Do you find it difficult to put across the American concept of modern war to the Chinese Nationalists?

A Everything takes time. The Chinese do not react as quickly as we do to new ideas.

Q Are they improving in their attitude toward our methods?

A Yes, because the present Chinese school system is built around our school system.

Q You mean their local schools?

A Their armed-forces schools. They have schools in each branch of the service—basic-infantry school, artillery, tank and logistical school. Then, we also have their corresponding Command and General Staff and War College for Army, Navy and Air Force and the National Defense College for uniform training.

Q Have you visited those schools?

A Yes, I have been there quite frequently to observe their methods of instruction. We have advisers with those particular schools and their work is based on comparable-type instruction that we have back in the United States.

Q Are the Chinese economy-minded in terms of equipment?

A Yes, I think they are very much so. We merely furnish the hardware that is involved in equipping an army and they furnish a lot themselves. They have the capability of producing recoilless weapons and recoilless ammunition.

Q They don't make anything larger than a 75-mm. recoilless?

A No, it is very difficult for them to go beyond that because of the amount of work involved.

Q Do they have their own steel?

A They have enough scrap material here and a steel mill to produce the steel that they need, and I'd say that at least half of their requirement is procured locally.

Q Do you find any tendency to hold on to equipment because they fear that sometime in the future their supplies may be cut off on orders from Washington or elsewhere?

A We are checking constantly to determine that they use the equipment we supply them. If they don't, we find out why.

Q Over all, would you say that the Chinese Nationalist-American co-operation on the military level is getting better all the time?

A Yes, we are producing better results all the time. It keeps getting better as equipment comes in.

A BIG 2-MONTH STRIKE— WHAT IT'S ALL ABOUT

A long and costly strike at Westinghouse plants has proved the exception in a year of rather general labor peace.

What caused the deadlock? Why did the strike drag on, while most others during 1955 were settled quickly?

Disputes involved how and when wage raises were to be paid, standards of work. Here, in detail, is what has been going on.

PITTSBURGH

On October 17, thirty plants of Westinghouse Electric Corporation, scattered throughout the country, were shut down by a strike of 44,000 workers. On October 25, ten other plants of the company were closed by a strike of 10,000 workers belonging to another union. In 58 other plants, workers took no part in the strikes and stayed on their jobs.

At the end of last week—two months from the beginning of the first strike—the walkouts still were on, with these results:

- Most of the 54,000 workers had received no company pay for eight weeks, but were drawing small strike benefits from their unions to help meet living expenses. A few thousand, in scattered cities, had accepted a company offer to go back to work.
- More than 60,000 other employes were not out on strike, but many among them—especially office people—were working only half time.
- Salaries of company executives had been cut 40 to 50 per cent.
- Westinghouse, one of the largest manufacturers of electrical equipment, was opening the gates to strikers who were ready to go back to work, but was getting few takers. Meanwhile, company production and sales were sharply curtailed.

Shift by unions. This was a strike that involved two unions that are bitter rivals, and it was one of the few nationwide strikes of 1955. Three years ago, union officials were praising Westinghouse for its "fairness" and "reasonableness" in wage negotiations.

Larger of the two unions is the International Union of Electrical, Radio and Machine Workers—known as "IUE"—which struck 30 plants of Westinghouse. The other union is the United Electrical, Radio and Machine Workers, or "UE."

In a year of few big strikes and of quick settlements, the stalemate between employer and unions has raised these questions: What stood in the way of settlement? What were the issues? Was there any difference between this dispute and an earlier dispute with General Electric Company that was settled without a strike?

There is disagreement between union and company as to the answers. But a look at the issues in the IUE strike provides some clues.

Wages have been a stumbling block. The IUE demanded a pay raise of 15 cents an hour. The company countered with an offer of wage increases totaling at least 23.5 cents an hour, but spread over a five-year period. For the first year, the company proposed a boost of 3 per cent, with everyone getting a raise of at least 4.5 cents an hour.

The company offer included a yearly increase of 3 per cent in 1956 and 1957, a raise of 3.48 per cent in 1958 and 3.46 per cent in 1959. The minimum raise would go to 5 cents an hour for 1958 and 1959. The average worker reportedly earned $2.10 an hour before the strike, or $16.80 for an eight-hour day.

Skilled workers, under the proposal, would get extra raises, ranging from a half-cent to 12 cents an hour.

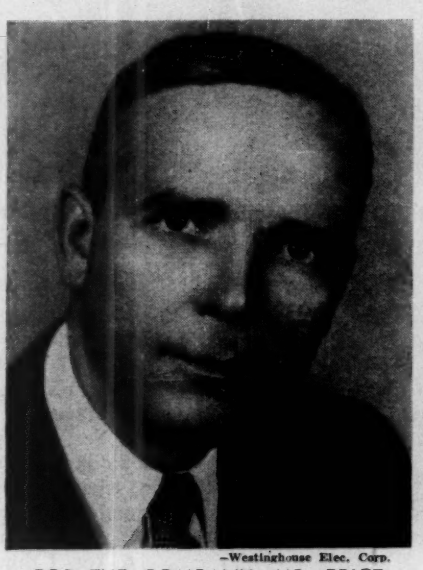
Improvements also were offered in the pension and insurance programs, and in other "fringe" benefits. The company offered to make wage adjustments as living costs rise or fall.

A five-year contract, proposed by Westinghouse as part of its package, was criticized by IUE officials, however.

The union took the position that its contract with Westinghouse, signed last year, allowed discussion this year of wage increases, and nothing else.

James B. Carey, president of IUE, argued that Westinghouse should grant a pay raise of 15 cents an hour at this time and leave other issues for discussion in 1956.

However, the company declared that Mr. Carey, in a letter to the management, had served notice prior to this year's negotiations that he intended to file demands on "other matters, involving rates of pay, wages, hours of employment and other conditions of employment."



—Westinghouse Elec. Corp.

FOR THE COMPANY: MR. PRICE

—USN&WR Photo

FOR THE UNION: MR. CAREY

Westinghouse decided to fight when IUE struck 30 plants

Westinghouse then drafted its offer of a five-year agreement, containing wage, vacation, pension and other benefits. The package was similar to an offer made by General Electric and accepted by IUE last August. The GE contract expired about the time the IUE accepted this five-year agreement.

Gwilym A. Price, president of Westinghouse, has quoted Mr. Carey as calling the GE agreement a "splendid settlement." Mr. Price added: "We agree with him. The package was costly—so costly that at first we were not sure we could afford to match it. However, we felt the promise of five years of labor peace would make it possible to give these benefits to our employes. So we prepared an offer equal in value."

To that, Mr. Carey replied that the Westinghouse package was not worth as much as the one obtained from GE.

"Work standards"—according to Mr. Carey—have been the main issue in the dispute, aside from a general pay raise. The IUE has accused Westinghouse of wanting to cut wages and reduce the number of employes by setting new standards of production for many jobs.

The management denied that it seeks to cut wages. Westinghouse has stated that what it has wanted is to make "time studies" of certain jobs to determine if the jobs are being handled in the most efficient manner. The jobs involved are on a straight-wage basis, the worker getting a fixed wage per hour regardless of the amount of output.

Various proposals have been made in recent weeks by both sides in an attempt to compromise the issue of work standards and other points in dispute.

Three demands. The IUE, for example, said that it would call off the strike if the company agreed to three things. First, IUE wanted a promise in writing that there would be no wage cuts, demotions or changes in methods of wage payment as a result of company time studies, unless the changes were negotiated with the union. Any disputes would be submitted to arbitration under the proposal.

Second, the union wanted Westinghouse to agree to negotiate on a wage increase, with the question left for decision of a neutral outsider if the two sides could not agree within 30 days.

As its third point, IUE proposed that, after the immediate raise was settled, the two sides could negotiate on other changes to be made when the contract expires next October.

An employe vote was suggested by the company. Westinghouse proposed that all workers be given a chance to vote, by secret ballot, on continuation of the strike. Then, Mr. Carey countered with a proposal for an employe election in which workers would choose either the union's wage demand of 15 cents or the company's offer. He wanted the company to agree to give the 15 cents if the election went that way.

—Wide World

POLICE BREAK UP PICKET LINE IN TRENTON
Strikers had massed to block workers from plant

Westinghouse said that it had made no offer of 15 cents. It wanted a vote on acceptance of the company offer and a return to work, or rejection of the offer and continuation of the strike.

Company strategy throughout the long dispute has been different from that followed in recent years by most employers. Instead of sitting out the strike, the Westinghouse officials decided to put up a fight.

Details of the company's offer, for example, were mailed to all employes. The company's side was explained by advertisements in newspapers and on the air and through speeches.

And the company recently let it be known that it would attempt to resume production in the plants on strike, if employes wanted to return to their jobs. Back-to-work movements have been started in several cities, and limited production has gotten under way.

Violence also has increased. At Trenton, N. J., cars of workers were damaged when the workers tried to go through picket lines. Homes of nonstrikers were reported stoned. The auto of an IUE official in Columbus, Ohio, was damaged by a bomb when parked near a union hall.

—Wide World

IUE OFFICIAL'S CAR WAS BOMBED IN COLUMBUS
. . . and homes of nonstrikers were reported stoned

KHRUSHCHEV'S STORY TO CANADA'S FOREIGN MINISTER

Soviet Leaders Believe They Will Win Without War

What Canada's Foreign Minister, Lester B. Pearson, got from Soviet leaders was this:

- **They want no world war, not now anyhow.**
- **They want to push the West off its guard, to weaken, then wreck, Western defenses.**
- **They want to keep prodding, pushing, competing, by measures short of atomic war.**
- **They have eased up a little on the Russian people, but could crack down again, any time.**

Top Russians, party boss Nikita S. Khrushchev and Premier Nikolai A. Bulganin among them, rolled out the red carpet for Mr. Pearson in Moscow and in their Crimean villas.

Mr. Pearson's warning to Western nations: "Let's keep our guard up."

Following are extracts from an address by Lester B. Pearson, Canada's Secretary of State for External Affairs, to the United Nations Correspondents Association in New York City on Nov. 28, 1955:

It's about my seven or eight days in Moscow that everybody asks me.

• • •

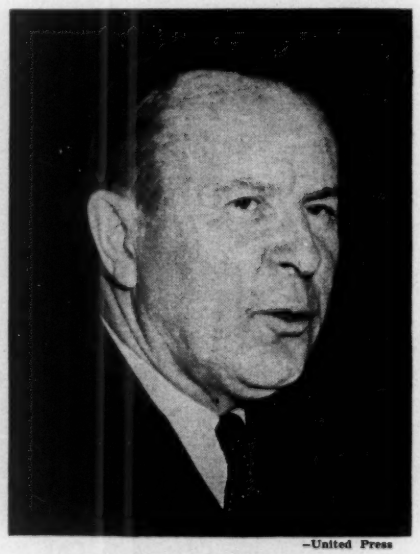
It is also true that I had, as a Canadian, at least, unique opportunities in that I was able to talk to a group of men who are at the present time controlling, as much as it is possible for any group of men to control, the destiny of that great country.

• • •

So far as Soviet-Canadian relations were concerned, they emphasized to me—the emphasis wasn't necessary, so far as I was concerned—that we had a northern neighbor as well as a southern neighbor, and we ought to pay a little more attention to the neighbor across the North Pole, though they didn't say we should pay less attention to the neighbor to the south. And that because they were our neighbors, we should be more concerned with good relations with the Soviet than we had been in the past.

I'm quite aware of that importance, as a Canadian. And no Canadian can feel very secure, because of our geographical position, as long as we are on bad relations with the northern neighbor. In fact, we'd like it to be the same as the relationship we have with the south, but that's certainly not going to be very easy.

At the same time, no Canadian can feel secure if the northern and southern neighbors are in bad relationship with each other. And, when I mentioned that to one of the Soviet members of the Politburo, he said, "That gives you a great opportunity. You can act as a bridge between us." I'm not sure Canadians—though they love to be compromisers—want to take on that particular job of interpretation and reconciliation.



—United Press

LESTER B. PEARSON

I also talked to them, and this was one of the purposes of my visit, about trade. We are very anxious to sell exports, especially agricultural exports—and especially in the light of American export agricultural policy—to any country that will take our wheat. And I did my best to establish the basis for a trade agreement with the Soviet Union by which they would buy Canadian wheat and in return for which we would put them on our "most-favored nation" lists. . . .

I also made it quite clear that, in the list of goods that we would be selling to them if they would work out a trade agreement, we reserve the right to maintain our strategic list, which includes goods which would not be available for export to the Soviet Union or to any of its Communist friends, as long as that list remains in existence. And, as you know, it's a list which we work out with Washington, London and certain other countries.

Now, in these discussions and in our visit we found that the people we met were very kind, very hospitable, very generous in their hospitality. We were treated with great courtesy wherever we went, and that, of course, made an impression on us. But we remember, of course, that the Russian people have been kindly and generous and hospitable for 150 years, and that's got nothing to do with the Communist regime.

We also found wherever we went—and this applies to the top people as well as to any others we had contact with—that the two expressions which were used most often, and thrown at us most often, were, first, their passion for peace; and, secondly, the importance of the "spirit of Geneva" and maintaining a relaxation of tension.

• • •

And so I did my best to find out whether the policies of the Soviet Gov-

. . . Red leaders know "world war means universal destruction"

ernment, as explained to me by their rulers, were such that they seem to hold the possibility of peace for the world. It's pretty difficult to give an answer to that question.

The present group that control the destiny of the Soviet Union . . . went out of their way on every occasion to emphasize that there is no one man running Russia now—that day was over—and that they were a group working closely together, a group of equals in the Politburo.

I think that's true, to a point. They're all equal, but some are more equal than others—to adapt a well-known quotation. And of the two who are more equal than the others, I suppose Mr. Khrushchev and Mr. Bulganin would be included. And when they claim they want peace, I think also that that is true. But the question is: What price are they willing to pay for peaceful policies? And what price, indeed, are we willing to pay?

I think they want peace—or, if you like, a peaceful interlude, which may not be quite the same thing. They want peace, and they want relaxation of tension for a variety of reasons, two of which occur to me at once and which were mentioned to me.

One is, they know that the alternative of peace is World War III, and there are other alternatives to peace and World War III. But, if the alternative is world war, that means universal destruction—and they know that. They've got the hydrogen bomb, and they made no pretense that they could escape the consequence of a hydrogen war. So I think they will do everything they can, and I'm sure we will do everything we can, to avoid that kind of alternative to peace.

Another reason why, I think, they want a peaceful interlude, relaxation of tension—as, indeed, Mr. Khrushchev said very frankly to me—was that, apart from the fact that they could only lose by war—everybody would lose—they have more to gain than to lose in, not so much peaceful coexistence but, the phrase we hear often now, competitive coexistence.

And it was made quite clear to me that, in that kind of competition, Soviet policies, the Soviet system and that of their friends would in the long run prevail, and they would achieve their objectives without the necessity of armed conflict. That point of view was put pretty straightforwardly by Mr. Kaganovich the other day in a speech in Moscow.

Russians Think They're Tougher

Why, then, should they go to war, they would say, "when we can accomplish our purposes without war?" And, as I've just said, they have confidence they can do that. They think they're tougher, they're more disciplined, their people are more patient—they're willing to accept sacrifices, more sacrifices than we in the Western, free world are willing to do. And in the long run, therefore, they will prevail in this kind of situation.

On specific problems they, of course, did their very best to convince me that NATO [North Atlantic Treaty Organization] was an offensive, anti-Soviet, aggressive organization and must be eliminated if there's going to be peace in the world. And I certainly didn't accept that view, and I told them in no uncertain terms how wrong they were on that score. They also made it quite clear—and this is why I wasn't very surprised at the outcome of the recent Geneva Conference—that there would be no unification for Germany as long as Germany remained in NATO.

Then, having taken these very definite stands, they would invariably follow that up by saying, "However, these are all political problems, we mustn't get impatient if they're not solved at once. It'll take time, but there is time and we must keep working away at them and do what we can in the meantime to extend and deepen the 'spirit of Geneva.'"

This, I may say, was before the Geneva Conference, and when people talk to me about the spirit of Geneva now, I ask them whether they mean the spirit of Geneva last summer or the spirit of Geneva last month.

There is no doubt in my mind . . . that they will do what they can to continue the feeling that there's relaxation of tension, but they will do that without giving anything away in regard to the solution of political problems. And I think, from their point of view, the more successful they are in convincing us that tension has been relaxed, the better chance they think they have of putting us off our guard. And that, in its turn, gives us surely the cue to the policy we should follow in the West.

Long, Hard Struggle Ahead

We should make sure that relaxation of tension doesn't mean relaxation of effort. And that's not going to be easy. We should, I think, accept the fact that we're going to have to live in this atmosphere of competitive coexistence for quite a long time; that it's going to be—from their point of view—a competition played under their rules, not under international rules; and that it may be much more difficult to stand up to these tactics than it was in the days when there was no talk about peaceful or competitive coexistence at all.

It surely means for us in the West that we should be more insistent than ever in maintaining our strength and maintaining our unity—especially in NATO. If there's one thing we shouldn't do now, that is weaken NATO, and I hope we'll come to that conclusion when we have our NATO meeting in December. It also means that we're not going to, as I see it, be able to lessen in any respect our defense effort, that we're going to have to be steady, we're going to have to be patient, and we're going to have to convince ourselves and our people that we're going to be living with this situation for a long time. If we can do that, and that's a pretty big if, then I don't think there's any cause for despair.

My last observation, then, is an encouraging one: We don't need to be too worried, too panicky, about the situation. We shouldn't get too exalted when something seems to go well, and we shouldn't get too depressed when something seems to go not so well. What we need is, then, steadiness and stability. And if I knew how to bring that about in the free world, well, I'd be a very great man, indeed, and I'm not that.

Thank you.

Following are questions from members of the association, with Mr. Pearson's answers:

Q Did you have the impression that if Germany were not to be tied to NATO, the Russians would agree to unification? . . .

A Well, I think that's a very good question, because, when I was told in Moscow that it was the policy of the West to force Germany to be in NATO and remain in NATO, I denied that. That is not our policy. Our policy is to give a Germany unified by free elections a right to decide itself, whether it wants to remain in NATO or outside NATO. And that's something that Soviet spokesmen don't talk about.

That is our policy, and there's that. And there's one thing else: At Geneva Mr. Molotov went a little further—a little further, maybe, than he needed to go—and maybe it's not a

. . . Leaders "really terrified at tyranny in last days of Stalin"

bad thing he did go a little further, when he gave at least the impression that not only must Germany get out of NATO but what he called, and I haven't got the exact phrase, the social and economic benefits of Communism in East Germany must be preserved. You can give your own interpretation to that ominous observation.

• • •

Q Is there any relaxation of tension inside Russia?

A A lot of people who know the country better than I do, who've been there some time, told me that there had been a relaxation of tension inside Russia in the last year or so, and that that relaxation of tension inside Russia might be more important in its long-range consequences than the relaxation of international tension. And that that was expressing itself in a new feeling of freedom among the people; that some of the restraints of the Stalin era had been removed.

And it is true, when you wander around, even casually and for a short time, you do get something of that impression, especially if you've been told about it beforehand. The best example that I can think of to illustrate my own experience in that regard is the Kremlin itself. I always had a picture of the Kremlin as a haunt of grim mystery and terror, and if you got within 50 yards of the wall somebody'd shoot you down.

It's because I got such a distorted impression in one sense, possibly, that I was so surprised to find that the gates were all open, that the place was full of sightseers, and that the atmosphere inside the Kremlin the afternoon that we went there wasn't too unlike Hampstead Heath on a bank holiday.

• • •

Q Mr. Pearson, as a result of your talks with the Russians, do you feel that there can be no reduction of armaments?

A There can't be any sizable reduction of armaments in the immediate future or in the more remote future until the international situation is such as to make that reduction of a kind which will not prejudice our security.

That can be done in more than one way. That result can be achieved by an improvement in international atmosphere, where we have more trust and confidence in each other than we have now, or it can be done by an agreement for the reduction of armaments, where the reduction is made on both sides under a system of control.

If that can be done, then the reduction doesn't prejudice your security in any way, and of course we're all for that, all of us. But that's not, as we know, going to be so easy to work out in an atmosphere of mistrust and lack of confidence.

• • •

Q Do you have any explanation in your own mind for the very cordial spirit which was put out by the Soviet delegation at the first Geneva meeting and their abrupt reversal of that spirit at the October meeting?

A I'll answer that in a few words, by saying that last summer's meeting was an atmospheric meeting and last month's meeting was a policy meeting, and one is a little more difficult than the other. It was the policy of the Soviet Government to create a good atmosphere—they did that. But it's not the policy of the Soviet Government at this time to yield on any of the basic questions that were discussed at the last Geneva meeting—at this time.

• • •

Q Why should the repression of the Russian people be relaxed, and why are their leaders now traveling with apparent freedom from fear that there'll be a palace revolution?

A Well, I don't know. We've all asked ourselves the reason for this, and the only reason I can think of at the moment that has, I think, some validity, is that they really were genuinely terrified—a good many people in the Soviet Government—at the deterioration of tyranny in the last days of Stalin, and there was such a sigh of relief when that ended that they have maybe decided they could swing a little to the other extreme.

I think that has been done, whatever the reason may be; but I wouldn't draw any extravagantly optimistic conclusions from that, because in a system of government such as they have in Russia the tap can be turned on—maybe it could be turned off, maybe an editorial in *Pravda* tomorrow would stop the whole business again.

—United Press

NATO TROOPS IN TRAINING

Mr. Pearson: "We should be more insistent than ever in maintaining our strength"

PLUS & MINUS
Latest Indicators of Business Activity

Business activity still is rising. Gains in production and trade have more than offset a gentle slide in the rate of home building.

Factory output, at 147 on the indicator in the week ended December 10, was above the level of any previous month. It was 18 per cent above July, 1954, and 6 per cent above July, 1953, peak before the 1953-54 recession.

Auto plants turned out 182,670 cars, as estimated by Ward's Reports, Inc. That was less than 1 per cent below the record in the last week of April.

Christmas trade is active. Department-store sales were 5 per cent above a year ago in the latest week. Retail-store sales for November exceeded November, 1954, by 8 per cent.

Interest rates continue to rise.

Short-term rates, in the open market, are higher than at any time in the last 20 years. The rate on commercial paper of four to six months' maturity reached 3 per cent early in December. The Treasury paid 2.59 per cent on its latest bill issue.

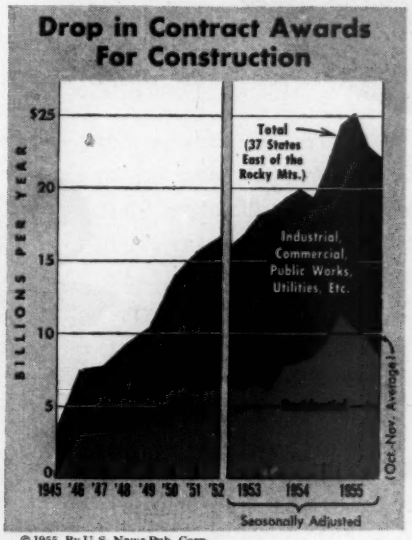
Bond yields are challenging their 1953 highs. State and municipal bonds of best grade now return 2.27 per cent, up from 1.90 in August, 1954. Best-grade corporation bonds yield 3.13, against 2.87 in October, 1954. Yield on Treasury bonds is 2.89 per cent, up from 2.47 in July, 1954.

Home building, more than any other industry, feels the credit squeeze.

Homes started under private financing dropped in November to a rate of 1,203,000 per year, lowest in 16 months, 14 per cent below a year ago.

Contract awards for residential construction, as the top chart shows, have fallen persistently since early in 1955. Effect has been to pull down the total rate of awards for all construction.

Planning of future building under VA and FHA financing is at a sharply reduced rate. Builders sought VA appraisals on only 30,397 proposed new homes in November, 36 per cent below a year ago, 58 below the peak of March, 1955. Lenders applied for FHA insurance of loans on only 16,302 new homes, down 39 per cent from a year ago.



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Basic data: F. W. Dodge Corp.

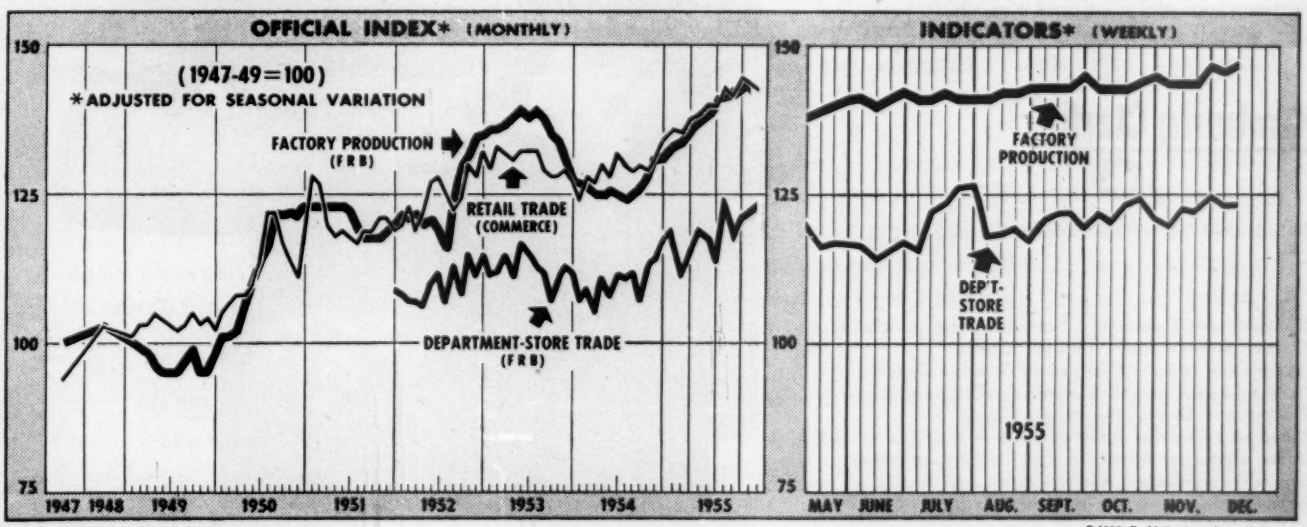
Stiffer credit terms have cut home demand. Short of funds, lenders ration credit to borrowers able to make larger down payments and monthly payments. On July 30, 1955, the Government cut the maximum life of new FHA and VA loans from 30 to 25 years and set minimum down payments of 2 per cent.

Building of homes for veterans, now almost a third of all home building, could drop sharply next spring if the supply of mortgage money for VA loans does not increase soon. Now that bond yields are up, many lenders will not make VA loans except at a sizable discount from the face amount. This discount, under VA rules, cannot be added to the price of the house, but must be absorbed by the builder out of his profit margin.

Builders' profit margins, however, already have been squeezed. Costs of home building have risen 3 per cent this year. Because the Government requires larger down payments and monthly payments, the market for homes has narrowed and prices have tended to soften. As a result, builders are in no mood to absorb discounts on financing. Signs are that many of them will build fewer homes until financing problems are cleared away.

The supply of mortgage money, though short now, is to become more plentiful in 1956. Each year, savings institutions receive repayments on a larger total of outstanding mortgage loans. Personal savings promise to be large next year. Banks and finance companies will receive larger repayments on installment loans, may extend less new installment credit than in 1955.

Full effects of the credit squeeze have not yet been reflected in the rate of home building. Residential construction is likely to be a soft spot in the economy early in 1956.



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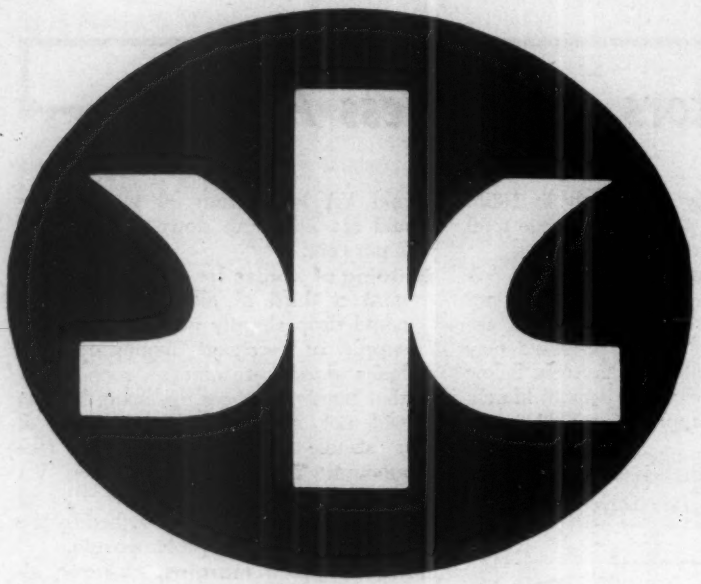

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News YOU Can Use ®

IN YOUR PERSONAL PLANNING

24th and N Streets, N.W.
Washington, D.C.

The job outlook for youths graduating from college this school year hits its rosiest for all time, a new study discloses. Here are the details:

JOBS FOR GRADUATES. More jobs are to be available than in any recent year, with starting salaries the highest in history, the study shows. The director of placement at Northwestern University made the study, which is an annual survey of the hiring plans of companies in various fields throughout the nation.

Engineering graduates again will be most in demand. But, for the first time in several years, the survey shows, there is to be a significant increase in demand for those without science training--especially in general business, sales and accounting fields. Companies say they expect to hire 30 per cent more college men than last year. Jobs for women graduates aren't to be as plentiful, except for those with secretarial training or with majors in chemistry or mathematics.

STARTING SALARIES. Beginning pay for engineer graduates, the study finds, will average $394 a month. That's $23 more than last spring's graduates got. For those with nontechnical backgrounds, starting salaries are to average $358--up $14 from a year ago. College women with science training can expect about $340; with other majors, around $260.

GETTING HIRED. The Northwestern survey also turned up a list of suggestions for college seniors wanting to make a good impression in job interviews. Most important, companies indicated, is for the applicant to know what field of work he is interested in, and why. He should understand his abilities, be able to make a clear presentation of his interests and background. Other company pointers: Dress properly. Be at ease; talk freely, act natural. Ask intelligent questions. Display an interest in the company and job. Be sincere.

TARDY TAXPAYING. People who get behind in their income tax payments face a crackdown now by the federal tax collector. Internal Revenue Service offices all over the country are stepping up pressure on delinquents, shortening the time between mailing out final overdue notices and attaching salaries, or putting liens on property. These more drastic measures also are being resorted to three times as frequently now as in recent years.

RISKY DRIVERS. A way to rate yourself on driving tendencies that lead to automobile accidents comes in a check list put together by the National Safety

(over)

Council. People who are accident-prone, the Council says, usually have one or more of these defects: Emotional instability. Ignorance of the rules of the road and of safety know-how. A tendency to be reckless. A preference for high-speed driving. An exaggerated idea of their ability to "handle" liquor. A record as inveterate traffic violators.

STORM LOSSES. Income tax questions that arise from losses you suffer in a hurricane, flood, tornado or other storm are answered by a new Internal Revenue Service leaflet. It is available, free, from IRS field offices. Title: "Losses from Hurricanes, Floods and other Disasters."

GETTING AHEAD IN BUSINESS. That adage about having to be the boss's son, or else to marry his daughter, in order to get ahead in the business world has less truth today than it had 50 years ago. This is the conclusion of studies by two members of the faculty at the University of Chicago.

Since 1900, they find, the percentage of top men in management who come from laborers' families has increased from 7 to 15. The percentage from white-collar and minor executives' families has climbed from 5 to 19. That from major executives' has stayed the same--15. But that from families of owners of large companies has dropped--17 down to 8.

ACHIEVEMENT AND EDUCATION. Relatives of the owner, the Chicago studies show, exert more claim to top posts in small businesses than they do in big concerns. Eight in 10 of today's bosses have gone to college, the studies find. And, they add, liberal-arts education provides a major source of today's executives.

SWEETS AND TEETH. Most tooth decay takes place while food is being eaten and for about 15 minutes after, a consultant writes in the "Journal" of the American Medical Association. That's why, he says, brushing the teeth, or at least rinsing the mouth thoroughly after meals or snacks, is important to people whose teeth are especially susceptible to decay. Sugar in concentrated form should be removed from the diet of such individuals. But, he adds, it is practically impossible--and inadvisable--to eliminate carbohydrates completely.

Heredity plays a major role in decay, the consultant says. Also, decay is greater with slow eaters, or with foods that stick to the teeth.

PAINTING HOMES. A good white paint, properly applied to seasoned wood on the exterior of a well-built home, shouldn't need renewing for 4 or 5 years. That view comes from a pamphlet prepared jointly by technical groups in the lumber and paint industries. Tinted paints should last 5 or 6 years; dark shades, 6 to 8. Painting, the booklet adds, should be in dry weather when the temperature is above 40 degrees, and after dew has evaporated. Three coats are usual on new work; one often is enough for redoing a surface in good condition.

CHEST X RAYS. Results so far are discouraging for the mass use of chest X rays as a means of detecting lung cancer and heart trouble. Thus decides the association of physicians who specialize in radiology. Such programs are practical for spotting tuberculosis, the association says, but aren't effective enough to warrant semiannual screening for cancer and heart disease.

IF YOU WORK FOR YOURSELF— A NEW PENSION PLAN IN THE MILL

Way May Be Opened to Build Tax-Free Fund

A drive is on to get doctors, lawyers, other self-employed persons a private pension plan similar to company plans for employes.

Mr. Eisenhower has approved the theory, but has held that the time was not right for adoption of the plan. Now, self-employed people hope, is the time.

There's a chance, too, that Congress may approve Social Security for doctors and lawyers.

The year 1956 may be the payoff year for doctors, lawyers and self-employed businessmen who have been demanding tax aids for their private retirement programs—plus Social Security.

Pressure has been building behind a plan to give self-employed individuals a grant of tax freedom for some of the income they may set aside in individual retirement programs. At the same time, more physicians, dentists and lawyers—now excluded from Social Security—have been changing their minds, deciding they want Social Security.

Approval of these plans by Congress in 1956 is not assured, of course. Some of the opposition that stalled action last year still remains. Yet, 1956 obviously is to offer the big opening. It's an election year. Congress and the Administration will want to make some appeal to professional groups.

The President, in fact, already is committed to Social Security for self-employed doctors and lawyers. Those groups were omitted—at urging of their own spokesmen—when the system was expanded to include other self-employed persons.

Mr. Eisenhower, moreover, is on the record in favor of giving self-employed individuals tax aid on systems of the private-industry sort. This will be his last chance in this term to support congressional action on the idea.

The "Individual Retirement Act," now before Congress in bill form, is de-

(Continued on page 86)

(If Congress approves plans for doctors, lawyers, other self-employed business and professional workers)

PART 1: **Grant tax exemption for private retirement plans—**

Physician, for example, age 45, with $20,000 income, will get to put aside $2,000 a year of his income for retirement . . . .

That $2,000 of income will be tax-free . . . .

Physician — or lawyer or other self-employed person — will invest the $2,000 each year in an annuity or a special retirement fund . . . .

At age 65, when he is retired on a lower income — and in a lower tax bracket — physician will start drawing his private pension and paying taxes on it.

PART 2: **Give pension coverage, under Social Security, to self-employed individuals not now in the system—**

Physicians, dentists, other self-employed members of medical profession, and lawyers will be brought under Social Security . . . .

Physician in example will pay into the system $126 per year, at the start . . . .

What the self-employed individual will get:

At age 65, an annuity of $279 a month and a tax-free Social Security pension of $108.50 a month for this physician, plus $54.30 for his wife when she becomes 65.

TOTAL: $441.80 a month.

If physician dies at age 60, with his wife 57, an individual annuity of $146.28 a month for his wife, plus a widow's Social Security pension of $81.40 a month.

TOTAL: $227.68 a month.

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Tax-free income to buy pensions would have limits . . .

signed strictly for self-employed persons, including physicians, dentists and other members of the medical profession, as well as farmers and small businessmen who own and run their own firms.

These individuals, if the bill passes, will be allowed to set aside each year up to 10 per cent of the income they earn from self-employment. That part of their income, invested for retirement, will be made tax-free.

The case of a physician, illustrated in the chart on page 85, shows what the plan can mean to the individual. With a $20,000 income, the physician could lay aside as much as $2,000 a year. If he starts at 45, and continues till he becomes 65, he will be able to start drawing $279 a month for life—assuming his savings have gone into the particular annuity shown in the chart.

Individuals with higher incomes from self-employment could save more tax-free income, of course, but not without limit. The plan is to set a $7,500 maximum on the amount to be put aside tax-free in any one year, and a top of $150,000 for the life of the individual.

Investment of this tax-free income, too, will be restricted, assuming the plan is adopted in its present form. The individual will have to buy an annuity which, unless he dies or is disabled, will not pay off until age 65. As an alternative, he will be allowed to put the income into a retirement trust fund set up by his business or professional organization.

Independent storekeepers, farmers, lawyers, engineers and other self-employed individuals, all will be given the same privilege if the plan is approved. They will get to put aside tax-free income in the same way as the physician.

What appeals particularly to the professional workers is that, under this plan, they will not be required to retire in order to draw their benefits at age 65. Unlike old-age pensions under Social Security, these benefits will be paid whether the individual retires entirely, partly or not at all.

Tax benefits of the plan will, in effect, permit self-employed persons to buy annuity contracts far more cheaply than they now can. If the plan is approved, they no longer will have to earn $1.50 or more to lay aside $1.

The individual in the 50 per cent tax bracket offers an illustration. If he decides, under present rules, to put away $2,000 a year for retirement, he has to earn an extra $4,000 in order to do it. Taxes take the other $2,000. If Congress agrees, this individual will need to earn only the additional $2,000 he wants to lay aside.

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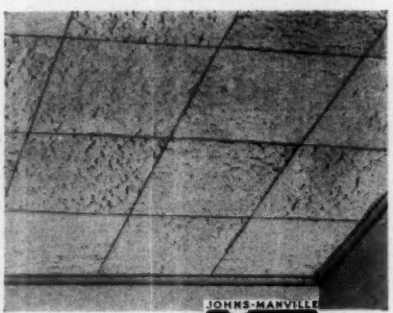


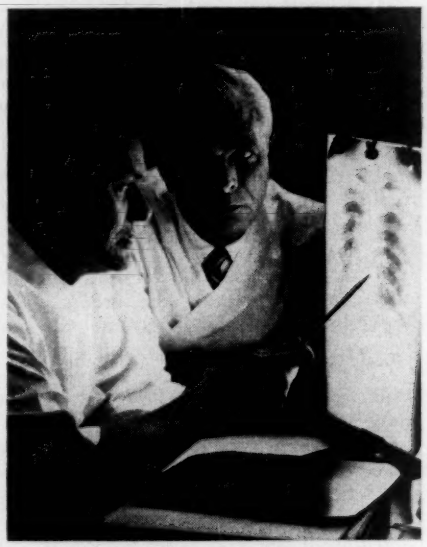
Johns-Manville

48 YEARS OF LEADERSHIP IN THE MANUFACTURE OF ACOUSTICAL MATERIALS

. . . Retirement plan will get harder push in Congress

Even when he starts drawing his benefits, the self-employed individual may not have to pay the regular income tax. If he draws all his annuity or pension money in a lump sum—as, for example, if he is disabled before age 65—he will pay only the capital-gains tax. That means a maximum tax of 25 per cent.

In most cases, however, the self-employed person will start paying the regular income tax on this money when he begins to draw regular payments at age 65. By that time, if he is at least partly retired, he will be on a lower income,



—Devaney

DOCTORS AT WORK
The question: Will Congress act?

and in a lower tax bracket, than when he was working full time.

The first $1,200 of those annual benefits, moreover, will be exempt from the first-bracket rate of 20 per cent for many of those who are entirely, or almost entirely, retired. At 65, too, there will be double exemptions.

In addition, many self-employed individuals will be able to count on old-age pensions from Social Security—checks running to $108.50 a month, or to $162.80 for a couple both 65 or over.

Chances for adoption in the election year of 1956, self-employed people are hoping, will be better than they have been before. In any case, the campaign for approval in Congress is being stepped up.

The argument for the plan runs like this: For millions of workers, employers already are making contributions to employe-retirement programs. Those contri-

(Continued on page 88)

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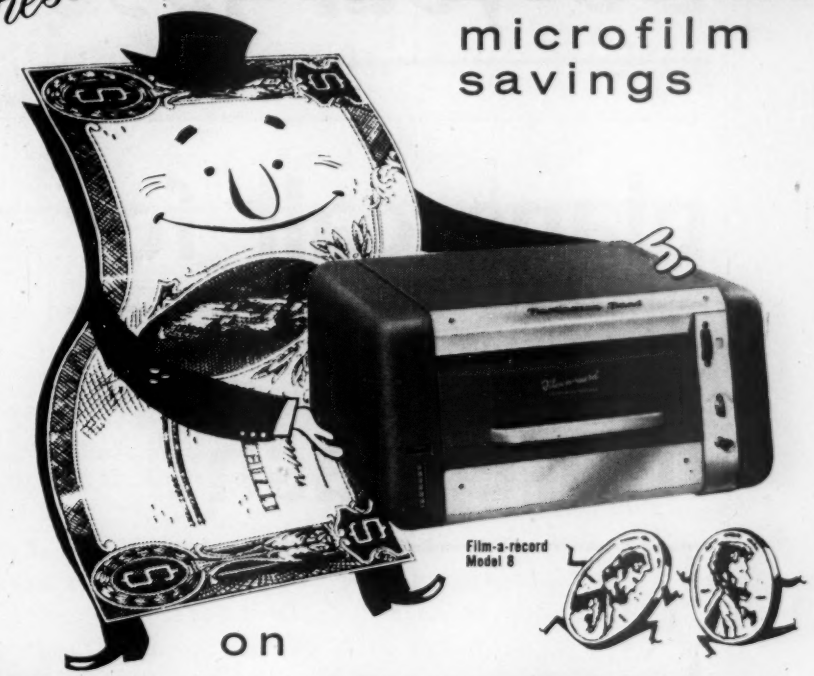

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. . . Self-employed person has been "forgotten," Ike said

butions, which amount really to extra income, are tax-free to the employe. The worker pays no tax on that income, but only on the company pension when he retires. Self-employed people, by contrast, have no employers to put tax-free income into a retirement "kitty" for them.

Now, however, self-employed individuals are hoping that Congress will grant them the privilege of setting aside some tax-free income for themselves. The fact that 1956 may be the President's last chance to make good on his promise of support is increasing that hope.

Mr. Eisenhower, in his 1952 campaign, noted that the self-employed person had been "forgotten" in legislation granting tax exemption to pension programs for employes. "I think," he declared, "something ought to be done to help these people to help themselves by allowing a reasonable tax deduction for money put aside by them for their own savings. . . . If I am elected I will favor legislation along these lines."

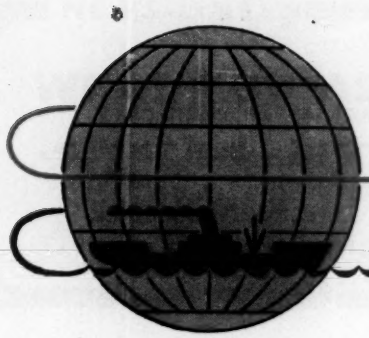
So far, Mr. Eisenhower has fought action on this plan on the ground that the budget could not stand the tax loss that would result. The upcoming session of Congress, self-employed people note, is his last chance to make good on his pledge.

Social Security's benefits, too, seem nearer to self-employed doctors and lawyers who like that system. Not all do. Until recently, spokesmen of these groups have fought the plan. But sentiment appears to have been veering.

In both the American Medical Association and the American Dental Association, the controlling houses of delegates have just voted in favor of the plan if coverage could be made voluntary. And the American Bar Association has launched a new vote in some States to see how lawyers feel now.

Some professional workers oppose Social Security coverage because they fear the step might delay the "individual retirement" plan they really want. Others dislike the system because they know they will have to retire in order to draw benefits. Doctors and lawyers, they say, never retire fully—at least, not till ill health forces retirement. Still other professional workers regard Social Security pensions as too meager for appeal.

For these reasons, Social Security coverage for doctors and lawyers may be blocked again in 1956. It is the individual-retirement plan that is being pushed. If it is not enacted next year—an election year, and with perhaps a favorable budget situation—the self-employed workers fear it may be a long time coming.



Business Around the World

BONN • LONDON • PARIS • TOKYO • BERN

>> Massive buying power is building up in Europe today. Never have there been so many employed, so few unemployed. Never have wages been so high. Never has spending been so great. Yet prices only inch up after years of stability.

Total spending in Western Europe in 1955 probably rose 6 per cent. This compares with 5 per cent gains in both '53 and '54. It's a record unmatched anywhere in the world, even in U.S.--as Europeans are quick to point out.

Consumer buying hits new peaks every month. But savings are up, too.

Installment credit? On the rise, but still a minor factor on the Continent. Europeans usually buy only after they've saved up the full price.

Unlike U.S. boom, Europe's boom isn't pinned on a huge volume of credit financing. Europeans will tell you, therefore, that their boom is sounder.

>> Net U.S. spending in Europe--about 1.7 billion dollars a year--is now a drop in a big European bucket. Underpinnings of the boom go back to Marshall Plan aid, but the foundation job is done. Europe's boom is on its own. It didn't even hesitate in 1953-54 when U.S. had a recession, junior grade.

In fact, Europe's boom is so big, Europeans are getting nervous about it.

>> Limitations on European industry are beginning to show up.

Industrial output, up nearly 10 per cent in 1955, can't rise as much in 1956. Capacity operation is near in steel, shipbuilding, machinery, refining.

Coal production is unlikely to increase much more.

Requirements for fuel and energy, however, will go on up. Coal, oil imports may have to increase, even though Europe's bill for coal and oil imports during 1955 shot up 25 per cent over '54, for a total close to 2.5 billion dollars.

Demand for U.S. coal will rise as Britain, West Germany cut exports further.

In addition: A bad bottleneck is forming in Europe's ports.

British and continental ports are already clogged with tankers and coal and ore carriers. Berths are scarce. Freight cars, barges are short.

Yet Europe has had a mild autumn. Winter freeze-ups will slow transport as well as force up the demand for heating fuels.

As it is, fueling Europe's boom has transportation experts breathing hard.

>> Labor shortages figure as still another limiting factor.

Worst shortage concerns technicians, engineers--especially production engineers, industrial designers, marketing and advertising experts.

As some American technicians are discovering, the pickings are good in a Europe just waking up to possibilities of mass production and mass selling.

Output per man, up sharply, has partly offset labor shortages, but upward

(over)

trend in productivity may halt unless Europe buys more automatic machinery.

Wage pressure is of course mounting with labor shortages. More pressure, including strikes, can be expected in '56. Ideas new to Europe's relatively docile unions are stirring--productivity raises, profit sharing, vacations.

>> In trying to keep inflationary dangers under control.....

Britain is attempting to cut consumer spending.

West Germany is bringing in more goods, more imports, to keep prices down.

Sweden, Switzerland hope to postpone new investment in plants until danger of inflation is less. France, Finland, along with Sweden, tie basic wage rates to living costs--then manipulate the cost-of-living index so it doesn't move.

Along with these measures, central banks in most of Europe are restraining bank loans through higher discount rates or by sterilizing some bank reserves.

A bewildering array of controls is thus being tested by officials scared of inflation and equally scared of throttling the boom.

>> In London, investors seem skeptical of Britain's curbs on inflation.

Industrial securities, after a midsummer slump, have moved up continuously.

Anti-inflation measures--credit squeeze, sales-tax increase, Government warnings--have apparently left investors unconvinced. Stocks, as a hedge against inflation, keep on attracting buyers. Question now is what the Government will do when and as wages also move up. Feeling is that something has to give.

>> French complacency about the boom is giving way to uneasiness.

Plant investment has been lagging. Self-financing of new plant, machinery, depends on profits which may now be squeezed by a wave of wage increases. Bank loans for capital improvement cost 6 to 8 per cent on 20-year money.

Upshot: French experts agree inflation is just around the corner unless plant investment is increased, wage demands are curbed, Government deficits are reduced. Outlook, in view of elections January 2, invites little complacency.

>> Business is unusually good in Tokyo, and Japan's businessmen are unusually fearful it can't last. When they look at the present situation.....

Spending in Japan is apparently at an all-time high. Prices are below '54. Exports, for the first time since the war, are enough to pay for visible imports. The trade deficit of 1954--nearly 500 million dollars for first nine months--has been replaced by a small surplus for 1955's first nine months.

What happens next, however, is the big question in Tokyo.

Textile exports, responsible for much of the boom, face trouble. U.S. is fixing to cut imports of Japanese textiles. Other markets are closing the door.

Only solution for Japan, apparently, is to reduce dependence on textile exports if it's to keep its head above water in international trade.

>> In Bern, Swiss officials reason that the big foreign markets are close to saturation. New emphasis is on developing markets in Asia and Latin America.

As Swiss industrialists see it: New orders are harder to get in the major markets. Profit margins are down. Payment is slowing. Credit demands are higher.

Prospects therefore may be brighter in smaller, less-competitive markets.

Swiss Government, as result, is opening new legations in 13 countries of Asia and Latin America, on the theory that commerce always follows the flag.

NEWS-LINES

WHAT YOU AS A BUSINESSMAN ☑ CAN and ☒ CANNOT DO

as a result of recent court and administrative decisions

☑ **YOU CAN** sometimes make a compromise with your district tax collector in a ***tax dispute.*** The Commissioner of Internal Revenue authorizes district directors of Internal Revenue to accept offers in compromise where the amount of unpaid tax is less than $5,000.

* * *

☑ **YOU CAN** sue the Government on a ***tax-refund claim*** you mailed within the three-year time limit even though the files of your tax collector show no record of receipt of the claim. The Department of Justice announces that it will not seek a court review of this decision of a federal court of appeals.

* * *

☑ **YOU CAN** take longer to submit to the Government a proposal for producing refined ***uranium products.*** The Atomic Energy Commission extends to next October 1 the deadline for private industry's production proposals in this field.

* * *

☑ **YOU CAN** soon make an offer to supply the Government with ***beryllium metal.*** The Atomic Energy Commission announces that private industry will be invited next month to submit proposals for supplying up to 100,000 pounds of reactor-grade beryllium metal annually over a five-year period.

* * *

☑ **YOU CAN** now bid to lease Government-owned ***oil and gas lands*** in some national wildlife refuges. The Secretary of the Interior revises the code of federal regulations dealing with such leases, which were suspended more than two years ago. However, no oil and gas leases will be permitted in areas needed to protect rare species of wildlife.

* * *

☒ **YOU CANNOT** safely refuse to bargain with a union certified by the National Labor Relations Board to represent your employes, just because you think the union no longer has a majority of the employes. The U. S. Supreme Court rules that an employer's claim that a ***certified union*** has lost its majority status does not justify his refusal to bargain with it.

* * *

☒ **YOU CANNOT** expect to collect damages from an NLRB regional officer for acts performed in his official capacity. In a case where a company accused a regional officer of conspiring with a union to file charges of unfair labor practices against the firm, a federal district court holds that NLRB officers are immune from such ***damage suits.***

* * *

☒ **YOU CANNOT** legally label your products as ***"chamois"*** if they are made of substitute sheepskin materials. The Federal Trade Commission says that the term chamois may be used only on products made from the underside of sheepskin that has been tanned in oil after the grain side has been split.

* * *

☒ **YOU CANNOT** avoid paying an excise tax on ***auto seat covers*** that you cut, sew and install on cars of your customers. A federal district court finds that such covers are accessories and the operator of the shop is a manufacturer.

* * *

☒ **YOU CANNOT** hope to get ***tax exemption*** for an organization formed to provide television antenna service to its members. Such an organization, says the Internal Revenue Service, is not entitled to tax-exempt status.

* * *

☒ **YOU CANNOT** count on winning a Government contract to construct a ***federal building*** under the lease-purchase program unless your plans meet new standards for design and construction. The new standards are released by the General Services Administration.

Conclusions expressed in these paragraphs are based upon decisions and rulings of courts and Government bureaus. In making their decisions, courts and bureaus consider many facts which, for reasons of space, cannot be set forth in detail. U. S. NEWS & WORLD REPORT, *on written request, will refer interested readers to sources of this basic material.*

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PROGRESS REPORT ON A FAMOUS PATIENT

Doctors, in their latest report on President Eisenhower, reveal these things about convalescence from a heart attack:

• Ike's rate of recovery, in three months, is normal for patients with moderate attacks. Damage to his heart covered 4/5 of an inch.

• While convalescing, a heart patient should not get excited or do much work. Mild exercise helps. Strain needs to be avoided.

• Business conferences may prove too tiring, should be strictly limited. A midday rest is highly important. Sleep is essential.

An authoritative report on Mr. Eisenhower's progress to date is given in what follows.

Following is full text of the transcript of a news conference on the President's health, as released by the White House:

PRESS AND RADIO CONFERENCE IN THE WHITE HOUSE—

with

Dr. Howard McC. Snyder,
The President's personal physician

Maj. Gen. Leonard D. Heaton,
Commanding officer, Walter Reed Hospital
Washington, D.C.

Col. Thomas W. Mattingly,
Chief of cardiology, Walter Reed Hospital
Washington, D.C.

James C. Hagerty,
Press secretary to the President

Held in Mr. J. C. Hagerty's office, Dec. 10, 1955, 5:35 p.m., E.S.T.

Mr. Hagerty: Gentlemen and ladies, Dr. Snyder, General Heaton, Dr. Mattingly have just come from the hospital. I asked Dr. Snyder to come down and give you the report on the President's condition and the report on the examinations today.

I might point out that this is a medical report and only a medical report.

Doctor?

Dr. Snyder: I think I might say by introduction, gentlemen—ladies and gentlemen—that, as Paul White put it just before we left Colorado, that the news continues to be good. [Dr. Paul White, Boston heart specialist, was called in to examine the President.] The President has completed his eleventh week of convalescence—the fourth since he left Colorado—and he continues to feel well and look well.

Q: Will you slow up just a little, Doctor?

Dr. Snyder: The executive responsibilities have imposed a heavier tax upon the President than an ideal convalescent program would incorporate. Then, too, the weather has not always been the best. Participation in office and farm activities has been carefully supervised so that no harm has resulted.

The President's condition when examined today was good. He has felt well and looked well during all these later weeks. He sleeps well, rests well, and relaxes easily during the day.

He has used sedation, and that only very mild, once since he left the hospital.

The President's temperature has been normal. His pulse has been regular, never rapid, usually in the 60s or lower 70s. His blood pressure has been stable, rarely above 120 systolic or above 80 diastolic, and never at an unsatisfactorily high or low level.

His general circulation is excellent, including the circulation in his legs and feet.

Although there was an area of soreness in the President's chest during the first 48 hours of his illness, his breathing has been entirely comfortable during his entire illness. Meaning, by that, he never complained of shortness of breath or hasn't had any real disturbance of breathing.

The blood-clotting time has remained at a controlled level; that is, at the level which has been considered desirable. The blood-sedimentation rate has steadily declined and is now in the upper normal range for this altitude. The white blood count has remained at a normal figure since the early days following the acute attack.

The serum cholesterol varies slightly but continues within the normal range.

Since the early period of hospitalization, the President's weight has remained below 172 pounds, on a diet which rarely exceeds 1,800 calories a day, and is usually within the limit of 1,600 to 1,800 calories. Portions of food are weighed. An accurate account of calories is made at each meal, and totaled at the end of the day.

Electrocardiograms have been made weekly since the President's departure from the hospital. The latest was made this afternoon. These cardiograms show residual abnormalities as a result of the scar in the heart muscle. These abnormalities remain stable, as is expected at this stage in the healing process. This stability is a desirable finding.

The scar in the heart muscle wall appears to be firm and of moderate size.

Fluoroscopic examination indicates that the heartbeat is good and that the muscle action is satisfactory.

The X-ray films that were made today show the lungs to be clear. This confirms the many X-ray and physical examinations that have been made.

The heart shadow, compared with films that were made in prior years and with those that have been made since the acute attack developed, shows no significant evidence of enlargement.

I think that is, in general, a summary of the findings of today.

. . . Snyder: "We would like to see lighter burden" on President

Q: Doctor, what is the President's weight? You said it was below 172.

Dr. Snyder: 171 this morning.

Q: Doctor, right at the very first part of your report, you said that "executive responsibilities have imposed a heavier tax on the President than an ideal convalescent program would incorporate." Now, does that mean that the considered opinion of the doctors is that the President's program now is a little heavier than you would like to see it?

Dr. Snyder: It means that it is a little lighter than I would like to see it.

Q: Lighter or heavier, sir?

Dr. Snyder: Little heavier. And we would like to see it a little lighter.

Q: Are you going to recommend that something be done about it?

Dr. Snyder: Everything to—everything is being done that is possible at the present time to lighten the burden.

Q: About how many hours a day, Doctor, should the President work?

Dr. Snyder: Oh, that is impossible to answer. It all depends upon the type of work and the—

Q: Doctor, you mentioned the cold climate. Are you recommending a change in climate for the President?

Dr. Snyder: I think the President is very well satisfied where he is, and will probably remain there.

Q: Doctor, you spoke of residual abnormalities. Does that mean that the President's recovery cannot be complete?

Dr. Snyder: You mean it will never be complete?

Q: If he has residual abnormalities now?

Dr. Snyder: They always exist in cases of this extent, residual abnormalities. You have got an abnormality if you have a burn on the hand and you have a scar following. You have a residual abnormality if you have an infarct in the heart which leaves a scar.

Q: Doctor, do you recommend more, less, or just as much work for the President in the future?

Dr. Snyder: I think that will be for our control, really, so that no harmful effects will result.

Q: Control in what direction, sir?

Dr. Snyder: We hope it will be lightened a little, and we expect it to be, over this next few weeks.

Q: Lightened from what he has been doing in the past month, or from the normal—

Dr. Snyder: From what he has been doing in the recent past.

Q: Doctor, recently Dr. White described the President's recovery as normal. Can you agree with that, as of now?

Dr. Snyder: I think that we would all agree to that. I will ask Colonel Mattingly, the cardiologist, as to whether he agrees with that statement.

Colonel Mattingly: I think that it is the normal, and I think like some of you folks have used, "normal electrocardiogram"; what Dr. White meant is that his recovery is normal, considering the type of attack that he has had; it is normal for this stage of his convalescence.

Q: Dr. Snyder, you say you think that—you hope that the work load will be lightened a little. For how long?

Dr. Snyder: Well, we expect it to be into January. The following Tuesday we expect the load to be lighter.

Q: Did that recommendation to lighten the work, Doctor, have anything to do with the examinations today?

Dr. Snyder: No, no. We have—Mr. Hagerty and I, and others, have been using every influence to maintain as light a load as the executive demands require.

Q: The recommendations were made before today's examinations?

Dr. Snyder: Oh, yes.

Q: In other words, it would have been made if you had made no examinations today?

Dr. Snyder: Yes. It has been made over the past number of days.

Q: Doctor, are there aspects of the President's condition today that are abnormal at all?

Dr. Snyder: Not in the sense that Colonel Mattingly has

—United Press

DOCTORS MATTINGLY, HEATON, SNYDER MEET REPORTERS

"The President can take considerable exercise in walking upon reasonably level ground"

. . . Snyder: "Two months" until decision on fitness

just described it to you. We consider his convalescence to be normal for a lesion of the extent that the President suffered, and he is progressing normally through this convalescence.

Q: Doctor, has the total size of the heart been increased?

Dr. Snyder: You mean since the attack developed?

Q: Yes, since the attack.

Dr. Snyder: It is possible, though it is hardly demonstrable by X-ray films.

Q: Doctor, have you said at what date you will be able to pronounce recovery? How much longer would the convalescence have to go?

Dr. Snyder: Well, I think, if I were in the President's berth and could analyze the situation from his viewpoint, from my knowledge as a physician, that I would not be able to make such a determination—certainly myself, at least—for two months; because I wouldn't have felt that I had been tried out to the extent to be able to determine whether I was reasonably fit again.

Q: Doctor, who is—or what is responsible for the program being heavier than the doctors recommend?

Dr. Snyder: I assume the requirements of government.

Q: Doctor, unless I am mistaken, this is the first time we have used the word "acute" in describing the original attack. I think it was described as neither mild nor serious. On what basis would you use that word?

Dr. Snyder: We have always described it as acute coronary thrombosis.

Q: Never, sir.

Dr. Snyder: Never?

Q: Not in any statement made by the White House?

Dr. Snyder: That is what an attack is when it comes on.

Colonel Mattingly: "Suddenly" is all that means.

Q: Suddenly.

Colonel Mattingly: Doesn't have to do with the size.

Q: Doesn't relate to the degree of severity?

Colonel Mattingly: No.

Preference for Gettysburg

Q: Doctor, you said you think the President is satisfied where he is and will probably remain. Well, does that mean that he is going to be staying in Gettysburg for a considerably longer time—

Dr. Snyder: I can't answer that, other than to say that the President has always contemplated putting in as much time at Gettysburg as possible until Congress convenes.

Q: When you say "there," Doctor, did you mean in Washington?

Dr. Snyder: In Gettysburg.

Q: Oh, I see.

Q: When do you expect him to resume residence here?

Dr. Snyder: He hasn't stated definitely. I assume, just as a pure assumption, that he will make his—come back here for residence at the time of the convening of Congress.

Q: You said that the tests today showed "no significant evidence" of enlargement. Dr. White last month said "no evidence." Is there any difference in the statements?

Dr. Snyder: Well, that is minimal—minimal. I think in a situation of this kind we always have—are bound to have a modest enlargement. We expect it ultimately, and in itself it is considered a good manifestation, to build up a little additional heart muscle—little additional collateral circulation to take care of the area which has been destroyed by the scar formation.

Q: Doctor, are you now saying that it will be at least mid-February before the President's recovery will be complete enough to determine whether he would be physically able to run for a second term?

Dr. Snyder: I am not saying that, because I make no attempts to determine anything about his decision with reference to—

Q: I think one time Dr. White told us—at the last conference in Denver, that it would be at least January—at least late January—

Dr. Snyder: Late January, early February, I think was the statement that I made, that I thought, before the President would be in a position—I would give him a little more time, if I were in his position myself.

Q: You are now saying that it would be mid-February?

Dr. Snyder: I would say that. I would like that much time to determine what the effort of the early days of another Congress will demand and what the toll may be.

Q: Doctor, was there any phase of today's examination that was unsatisfactory to you?

Dr. Snyder: Not to me. It was just as I had pictured it. And I think that—I would like General Heaton and Colonel Mattingly to express their opinions in that respect.

Q: Dr. Snyder, before that, sir, could we pin down that mid-February a little more? Mid or late February, if you were President?

Dr. Snyder: I wouldn't do it before mid-February, if I were President. I wouldn't feel that I had enough knowledge on which to make any determination as to my physical well-being.

Strain of Another Term

Q: Is it possible, Doctor, to assess how much another term will take out of a man, in terms of—physical terms?

Dr. Snyder: No. No, it is not. It is not.

Q: Has the President been advised of your recommendation that he wait till mid-February—

Dr. Snyder: We haven't gone into anything of that nature with the President. We have been living from day to day with the conditions as we found them.

Q: If, as you say, he is proceeding satisfactorily, you found nothing at all abnormal today, why do you feel—could you say a little more about why you feel his load should be lightened?

Dr. Snyder: I feel that the load of the official requirements in the recent past has been heavier than we would like to establish in a convalescent program. But I think from the standpoint of Dr. White and Dr. Mattingly—and others of us—Colonel Pollock at Fitzsimons—that if we could run an ideal setup, an ideal convalescent program, we would have made it lighter than that which of necessity has been imposed upon the President.

Q: Would you change the geographical location, Doctor?

Dr. Snyder: Would I?

Q: Yes.

Dr. Snyder: Well, I am from south of the Mason-Dixon line, so far as my inclinations are concerned.

Q: As part of the ideal convalescent program?

Dr. Snyder: I think I could do as well in Gettysburg, if we didn't have the—the President has many interests there. After all, an interest is something that one needs in a period of idleness or partial idleness.

Q: Doctor, is it the President himself that is setting this faster pace than you would like?

Dr. Snyder: Well, he is dedicated to his duty and his conscience probably drives him to co-operate with everything that is desired that he do. But I don't have any criticism of anyone who has brought anything to him for decision.

. . . Mattingly: "The President has been a little fatigued"

Q: Well, Doctor, if the present comparatively light program is too heavy for his proper convalescence, what is your opinion of the increase of a heavier load when he comes back and Congress is here?

Dr. Snyder: It is my opinion that his decisions in the early days of Congress will not be as demanding as those that he has experienced in the recent past.

Q: Could you enlarge on that?

Mr. Hagerty: I can. You are in the middle of the budget. We have had two Cabinet meetings and two NSC meetings up at Camp David within a week. Those are what we are talking about.

Q: Would you think it would be wise for him to appear before Congress in person to deliver the state-of-the-union message to Congress?

Dr. Snyder: We shouldn't think so. I haven't been asked for a recommendation in that respect.

Q: Could you give us an idea of how much physical exercise would be advisable for the President at the present time?

Dr. Snyder: The President at the present time can take considerable exercise in walking upon reasonably level ground several hours a day. There is no real risk imposed upon him in that respect now. He can go about as he sees—as he is inclined to do.

Golf? "No Comment"

Q: Doctor, as a result of this examination, would you say he would be well enough to play some golf? That is one of his very dear interests.

Dr. Snyder: I don't want to make comment on that. I know the way I feel about it, but cardiologists very much different—differ in their reactions as to whether patients with serious cardiac infarct should ever play golf today; that is to say, a point on which cardiologists differ.

Q: What is your view, sir?

Dr. Snyder: I would defer to the balance of opinion among the cardiologists who are—whom I have consulted in this instance.

Q: Doctor—

Q: Doctor—I am sorry—you describe the President's condition as good. Would you use that word as apart from "excellent" or "fair" or "generally"?

Dr. Snyder: We could hardly expect a man who has had this serious illness to be in what we could term excellent physical condition, because that implies rather athletic fitness.

Q: Doctor, quite a few visitors to the President's office up at Gettysburg recently have come away describing his condition in rather glowing terms. Do you have any idea why they might do that, in view of the fact that his condition is normal?

Dr. Snyder: I can't interpret others' reactions.

Q: Doctor, can you tell us how big the injured area of the heart was? We have heard it described—an injury of that type described—well, is it as big as a dime or a half dollar? Is there any idea of size that you can give us?

Dr. Snyder: I would ask that question of Colonel Mattingly.

Colonel Mattingly: Well, such an estimate would be based upon several things. Changes in the electrocardiogram primarily and the appearance of his X rays and fluoroscopic examinations. And that—the best I would estimate, not exceeding perhaps two centimeters at the most.

Q: How big is that?

Dr. Snyder: Four fifths of an inch. A centimeter is two fifths of an inch. Two would be four fifths of an inch.

Q: Is a case of this kind a fairly normal area of damage?

Colonel Mattingly: There is no normal injury. When you have an injury, it is not normal.

Q: Average?

Colonel Mattingly: You have to drop the word "normal" when you have an injury.

Q: What about "average"?

Colonel Mattingly: I think it's average.

Q: Colonel Mattingly, could you answer that question that Dr. Snyder answered, was there anything in today's examinations that was worrisome to you?

Colonel Mattingly: In the physical examination, no.

Q: Was there any other examination beside the physical?

Colonel Mattingly: I think we have an observation—observed that the President has been a little fatigued after some of these days. That's the only exception I would have.

Q: Is he suffering from any fatigue that disturbs you?

Dr. Snyder: Not disturbing me in a general way, but in this business we get ahead of ourselves.

Q: Is there any relation between the eye examination and the heart?

Dr. Snyder: None whatsoever.

Q: None whatsoever.

Q: General, I would like to ask you one question: Have you recommended to the President that he slow down his pace?

Dr. Snyder: Oh, yes.

Q: Today?

Dr. Snyder: Not today—for some time past. In other words, I have been discouraging him from overdoing—what we term overdoing, which might result, as Colonel Mattingly has just stated, in some evidence of fatigue.

Q: Going back to fatigue, how does it manifest itself, Doctor?

Dr. Snyder: It manifests itself in changes in blood pressure, pulse rate and reactions that are expressed by an individual. The President has known that he has been somewhat fatigued at the end of some of his serious conferences, but he has not felt that he has allowed himself to become unduly fatigued.

Q: You are saying you don't believe he is unduly fatigued?

Dr. Snyder: I am sure he has not been unduly fatigued; not from the examinations we made today—we would know nothing about the slight indications of fatigue.

Q: Is this an emotional or physiological thing?

Dr. Snyder: The physiological thing that registers. And it is mental so far as the individual's own appreciation of a situation.

Q: Doctor, is the President mentally as alert as he was before his attack?

Dr. Snyder: So far as I have any knowledge, he is.

Ike Relaxes Well

Q: You said he had sedation only once, which would indicate, I presume, that his nights have been quite comfortable, and he has had no trouble sleeping?

Dr. Snyder: Yes, we made that statement in general: He rests well, he relaxes well, both day and night.

Q: Have there been any mornings with fatigue?

Dr. Snyder: No—none except at the terminus of some conferences.

Q: You covered golf. Could you make any estimate on whether the President would ever be able to hold a press conference?

Dr. Snyder: (answer inaudible)

Q: That would be a possibility any time between now—

Dr. Snyder: (answer again inaudible)

Q: Thank you, Doctor.

SOMEDAY—A REAL CHRISTMAS

By David Lawrence

SOMEDAY THE SPIRIT OF CHRISTMAS will mean more in national and international affairs than it does today.

Someday there will be peace on earth.

Someday there will be good will toward men.

When?

Can it be while men hate each other, deceive one another, envy one another, rob one another?

Can it be while men malign one another and distort truth just to win an election to public office?

Can it be while men, without basis, question each other's integrity instead of debating issues and ideas?

Can it be while those who boast of freedom and democracy practice bigotry in their own communities and deny their fellow men the rights that "freedom" must guarantee to everyone?

Can it be while men conspire to enslave their fellow men—to imprison them in isolated camps far from their homes and families?

Can it be while tyrants deny liberty to the individual and wield the scepters of despotism over millions of helpless persons?

Can it be while we prate of morals and idealism and then sell our souls amid the hypocrisies of the hour?

Can it be while men surrender principle and morality and excuse their conduct as necessary to meet "political expediency" in international relations?

Can it be while men who profess to be righteous sit down to bargain with evil regimes and to negotiate a "live and let live" philosophy that openly condones sin and cravenly runs away from the sacrifices so necessary to win a triumph for a cause that is just?

The world each year is reminded of Christmas in an outburst of generosity toward kin folk and friends. But the gifts mostly are of material things. The voice of the spiritual is rarely heard above the din of the crowd. We recite the rituals, but do we fulfill the words which speak the true creed?

This is an age of decaying morals and of crass materialism. The prophets of old have been silenced. The new prophets urge the advantages of compromise with evil—they terrorize the people with a strange fear of death. They regard sacrifice as obsolete. Jesus, they argue in effect, would better have appeased the enemy.

The motivation to resist tyrannical masters at the risk of death has always been heroic, but nowadays we are asked to buy security at any price—even at the price of ideals and moral principle.

The Great Martyr of all times had no fear of mortal death. His was to the last a voice of patience and restraint, of charity and forgiveness. There was no flinching in the test.

The lesson in the life of Jesus, well known to all of us but little heeded, is one of martyrdom for a great principle. This principle offers a firm foundation for all human relationships. It is a principle of unselfish concern for and, indeed, love of one's fellow man.

Nations will never manifest it in their relations with other nations until individuals learn its true meaning and give it effect in their daily lives.

For the principle of love is not merely affection for each other. It connotes tolerance, helpfulness, willingness to share each other's resources, and, above all, rendering unto others the respect and the consideration that equals deserve from one another.

We speak of peace as an objective. But we seldom examine the ingredients of peace that comprise the moral force of mankind.

For until the spirit that permeated the life and teachings of Jesus nearly two thousand years ago becomes the code of mankind, there will be continuous friction and misunderstanding and perhaps even war.

Peoples do not willingly fight one another. Rulers bring on war by misleading oppressed peoples, hiding the truth from them and falsely accusing other nations of threatening attack. It is the oldest crime in all history. We are conscious of its vicious impact today. Only truth can overcome it, by reaching into the hearts of men everywhere.

Someday there will be a real Christmas.

Someday the peoples of the world will rise to do homage to the principles that will assure a peaceful existence.

But the real Christmas will never come through the electric display of slogans or the myriads of tinseled trees exhibited along our thoroughfares.

The real Christmas will come when men have discovered within themselves the power that overnight can render impotent any commands issued by the despots.

The real Christmas will come when, among nations like our own and our allies, there is an impulse to follow the courageous will of a liberated Conscience.

To achieve this emancipation from the shackles of modern ideologies, we must grow a Christmas tree that doesn't wither the day after Christmas—a tree that is nourished within our own hearts and spreads its branches from man to man as it unites us all in a world of eternal love.

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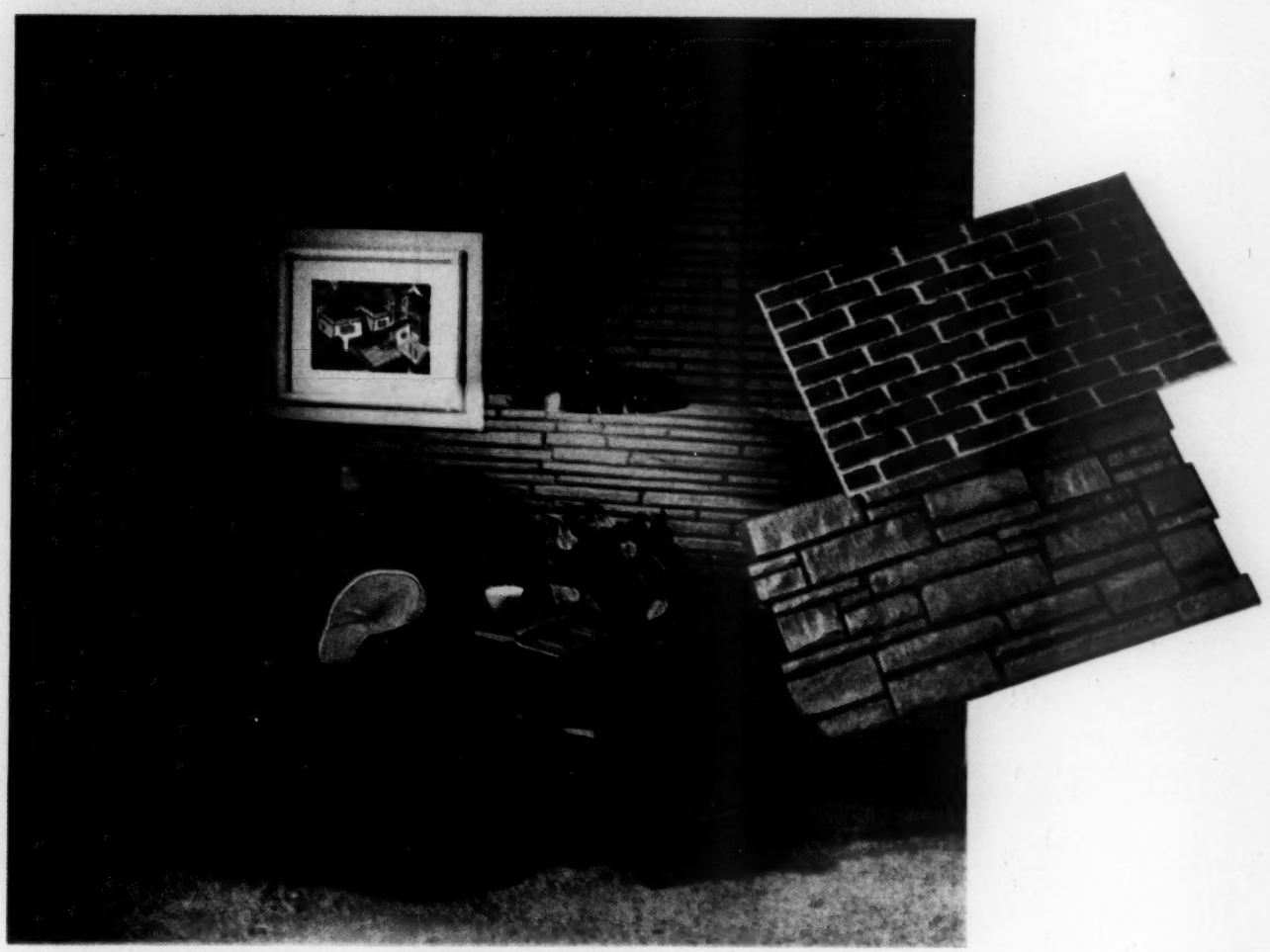

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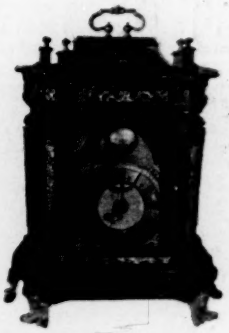
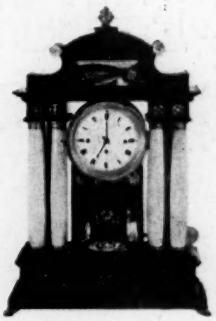


ITALIAN BRACKET CLOCK, CIRCA 1840

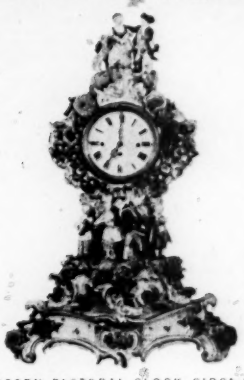


VIENNESE FOUNTAIN CLOCK, CIRCA 1810

LAPIS LAZULI CLOCK, CIRCA 1895

FRENCH TEA TIME CLOCK, CIRCA 1810

MINIATURE TALL CLOCK, CIRCA 1840



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